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

WORLD'S LEADING
CLEAN ENERGY PROVIDER

LOW-CARBON & ENERGY-SAVING
INTEGRATED SOLUTIONS PROVIDER

INTERIM REPORT **2019**

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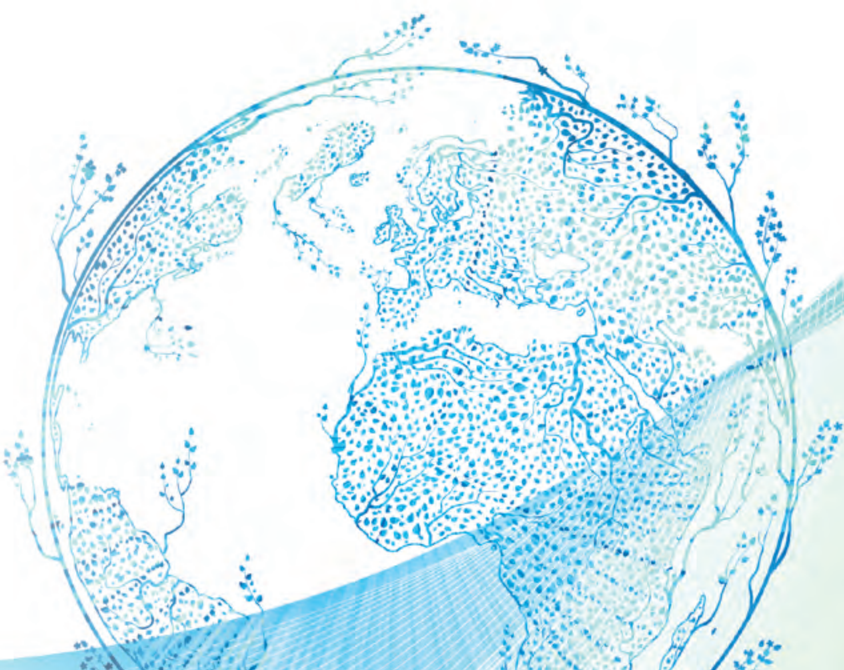


# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Zhang Fubo *(Chairman)*
Mr. Wang Yu *(Chief Executive Officer)*
Mr. Lu Bin
Mr. Chen Shi

### Independent Non-executive Directors

Mr. Tao Wenquan
Mr. Zhao Yuwen
Mr. Kwong Wai Sun Wilson

## AUDIT COMMITTEE

Mr. Kwong Wai Sun Wilson *(Chairman)*
Mr. Tao Wenquan
Mr. Zhao Yuwen

## REMUNERATION COMMITTEE

Mr. Kwong Wai Sun Wilson *(Chairman)*
Mr. Zhang Fubo
Mr. Tao Wenquan
Mr. Zhao Yuwen

## NOMINATION COMMITTEE

Mr. Zhang Fubo *(Chairman)*
Mr. Kwong Wai Sun Wilson
Mr. Zhao Yuwen

## COMPANY SECRETARY

Mr. Lu Bin

## AUTHORIZED REPRESENTATIVES

Mr. Zhang Fubo
Mr. Lu Bin

## REGISTERED OFFICE

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

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Portion C, 30/F, Bank of China Tower,
1 Garden Road, Central,
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 12 Xinhua Road
National Hi-tech Industrial Development Zone
Wuxi City
Jiangsu 214028, China

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISER

As to Hong Kong law
Herbert Smith Freehills

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

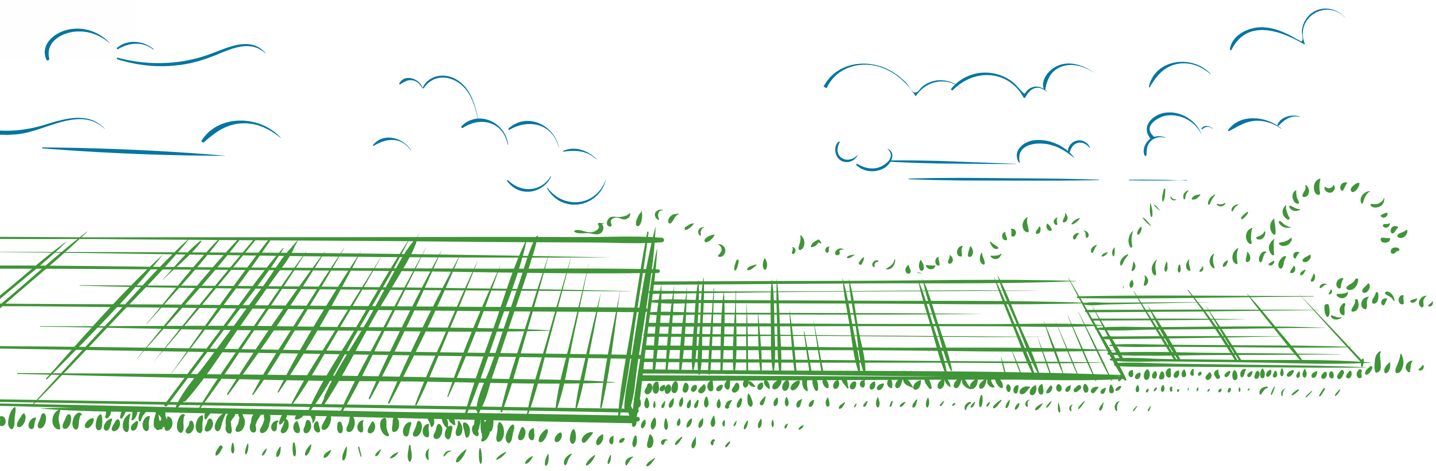
## COMPANY WEBSITE

www.sfcegroup.com

## STOCK CODE

01165

# MANAGEMENT DISCUSSION AND ANALYSIS



## BUSINESS REVIEW

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 international influences. The Group will continue 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 can provide low-carbon and energy-saving integrated solutions.

During the Period, the Group recorded a revenue of RMB5,274.0 million, representing an increase of 5.3% from RMB5,010.4 million for the corresponding period in 2018. The growth in revenue was mainly contributed by manufacturing and sales of Solar Products and installation of services of PV systems and solar power generation.

The Group recorded a 5.4% growth in revenue of RMB4,326.0 million from manufacturing and sales of Solar Products and installation services of PV systems.

The Group maintained the overall scale of on-grid solar power plants in China and overseas. The segment in solar power generation has contributed of RMB727.2 million to the group revenue during the Period, which represents a stabilizing growth of 8.1% as compared to the corresponding period in 2018, with total power generation of 923,833MWh.

The Group also recorded a revenue of RMB73.3 million from solar power plant operation and services, which represents a considerable growth of 16.6% or RMB10.4 million as compared to the corresponding period in 2018.

Further, for the segment in manufacturing and sales in LED products, a revenue of RMB147.5 million was recorded during the Period, representing a decrease of 13.4% or RMB22.7 million as compared to the corresponding period in 2018.

## Solar Power Generation

During the Period, the solar power plants owned by the Group generated an aggregate of approximately 929,254MWh.

| | **For the six months ended 30 June** | | |
|---|---|---|---|
| | **2019** | 2018 | % of |
| | ***MWh*** | *MWh* | Change |
| Power generation volume: | | | |
| PRC | **915,059** | 827,240 | 10.6% |
| Overseas | **14,195** | 17,098 | (17.0%) |
| Total | **929,254** | 844,338 | 10.1% |

As at 30 June 2019, the Group's solar power plants successfully realised a total installed capacity of 1.5GW of on-grid generation.

## Manufacturing and Sales of Solar Products and Installation Services of PV Systems

As of 30 June 2019, the sales volume of Solar Products amounted to 2,470.9MW, representing an increase of 501.7MW or 25.5% from 1,969.2MW for the same period in 2018.

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2019** | 2018 | % of |
| | ***MW*** | *MW* | Change |
| Sales volume to independent third parties: | | | |
| Wafers | **—** | 12.5 | —% |
| Cells | **672.1** | 558.2 | 20.4% |
| Modules | **1,798.8** | 1,398.5 | 28.6% |
| Total | **2,470.9** | 1,969.2 | 25.5% |

As of 30 June 2019, our top five customers represented approximately 18.7% of our total revenue as compared to approximately 18.6% in the same period in 2018. During the Period, our largest customer accounted for approximately 6.0% of our total revenue, as compared to approximately 5.4% in the same period in 2018. We believe that product quality and cost advantage will be crucial in the upcoming era of solar energy. During the Period, our largest customer is a company situated in India and its business is to operate solar power plants in India and other European countries. It mainly acquires solar modules from the Group and maintained a business relationship with the Group since 2018. Other major customers purchase Solar Products or solar power from the Group. The Group has maintained business relationships with such customers ranging from one year to twelve years and offered them credit periods ranging from 30 days to 180 days. As at the date of this report, our major customers repaid their debts on time in accordance with the agreed commercial terms and the outstanding receivables were still within the credit periods granted by the Group. After conducting an internal assessment by the Group, we conclude that our major customers have good repayment history and credibility. In order to minimise the credit risk, the Directors continuously monitor the level of risk exposure via frequent review of the financial conditions and credibility of the major customers, so as to ensure that prompt actions will be taken to lower risk exposure.

During the Period, our sales to PRC-based customers represented approximately 36.2% of the Group's total revenue, as compared to approximately 58.2% in the same period in 2018. During the Period, our sales to overseas customers represented approximately 63.8% of the Group's total revenue, as compared to approximately 41.8% in the same period in 2018. Our strong track record of product quality, advanced proprietary technology and effective cost control measures have contributed to our strong reputation and thus our success in optimizing our customer base. We believe such strategic measures will continue to create strong and sustainable market demand for our products.

The Group strives to become a global leading supplier of clean energy and provider of low-carbon and energy-saving integrated solutions. Apart from leveraging on the positive brand awareness of "Shunfeng" and "Suntech" established over years in the global market to continuously expand the businesses of constructing and operating of global solar power plants and manufacturing of Solar Products, the Group also pursues other clean energy-related businesses to realise diversified business development.

### Plant Operation and Services

meteocontrol GmbH ("**meteocontrol**") is one of the world's largest independent photovoltaic plant monitoring service providers. meteocontrol has extensive solar power plant monitoring, operation and maintenance experience in residential, commercial and utility sectors and has a monitoring volume of 14GW. meteocontrol offers services covering the entire process of solar power plant projects, from planning and installation to global operation and maintenance, and also provides independent consultation for the projects at every stage. During the Period, meteocontrol has brought revenue of RMB73.3 million (for the same period in 2018: RMB62.9 million) to the Group.

### Production and Sales of LED Products

Lattice Power is principally engaged in the development, manufacturing, marketing and sales of LED chips and packages for use in general indoor and outdoor lighting, specialty lighting, LCD backlighting and related industries. The sales of LED chips, LED packages and other LED products within the Group's production business amounted to RMB147.5 million during the Period, as compared to RMB170.2 million for the corresponding period in 2018.

### Financing Activities

During the Period, the Group has continued to receive support from financial institutions. In the first half of 2019, the Company successfully obtained loans from banks and other financial institutions. These funds serve as continued support for enhancing liquidity and future business development.

## FINANCIAL REVIEW

### Revenue

Revenue increased by RMB263.6 million, or 5.3%, from RMB5,010.4 million for the same period in 2018 to RMB5,274.0 million for the Period. The stable revenue mainly included that (i) most of the solar power plants of the Group that completed on-grid connection have completed testing and commenced operation and thus generated revenue from power generation, with power generation that has completed testing and included in revenue of 923,833MWh recorded for the Period (for the same period in 2018: 838,687MWh); and (ii) the sales volume of our Solar Products recorded for the Period was 2,470.9MW (for the same period in 2018: 1,969.2MW).

In certain provinces and regions where the power plants of the Group are located in PRC, the use of electricity continues to be limited, resulting in loss of power generation volume and approximately RMB92.0 million (for the same period in 2018: RMB160.0 million) in revenue of the Group from power generation during the Period. The Group has been participating in various cross-province selling schemes which enabled the Group to sell the electricity generated to other regions or provinces other than the location of the relevant solar power plants to alleviate the impact of the restriction on the use of electricity on the Group.

During the Period, sales of Solar Products accounted for 81.9% of the total revenue, of which sales of modules, cells, PV Systems and other solar products accounted for 69.6%, 10.2%, 2.0% and 0.1% of the total revenue, respectively. Revenue from installation services of PV Systems accounted for 0.1% of the total revenue. Further, revenue from solar power generation accounted for 13.8% of the total revenue. Revenue from LED products accounted for 2.8% of the total revenue while sales from solar power plant operation and services accounted for 1.4% of the total revenue.

### Solar modules

Revenue from the sales of solar modules increased by RMB479.6 million, or 15.0%, from RMB3,193.5 million for the same period in 2018 to RMB3,673.1 million for the Period, primarily due to an increase in the Group's sales volume by 400.3MW or 28.6% from 1,398.5MW for the same period in 2018 to 1,798.8MW for the Period, but was partially offset by a decrease in the average selling price for our products by 10.5% from RMB2.28 per watt for the same period in 2018 to RMB2.04 per watt for the Period.

### Solar cells

Revenue from the sales of solar cells decreased by RMB140.7 million, or 20.8%, from RMB677.4 million for the same period in 2018 to RMB536.7 million for the Period, but the sales volume increased by 113.9MW or 20.4% from 558.2MW for the same period in 2018 to 672.1MW for the Period. It is mainly due to a decrease in the average selling price for products by 34.4% from RMB1.22 per watt for the same period in 2018 to RMB0.80 per watt for the Period.

### Installation services of PV Systems

The Group provides the installation services of certain distributed solar power plants, which are often built on rooftop of buildings owned by the customers. Revenue from the installation services of PV Systems decreased by RMB142.9 million, or 97.3%, from RMB146.9 million for the same period in 2018 to RMB4.0 million for the Period.

### Solar power generation

Revenue from solar power generation increased by RMB54.4 million, or 8.1%, from RMB672.8 million for the same period in 2018 to RMB727.2 million for the Period, and the total power generated for the Period amounted to 929,254MWh, while 923,833MWh was recorded as revenue from power generation upon completion of testing.

### Plant Operation and Services

meteocontrol provides solar power plant monitoring services. The revenue from relevant service fees generated during the Period increased by RMB10.4 million or 16.6% from RMB62.9 million for the same period in 2018 to RMB73.3 million for the Period.

### LED products

Revenue from the sales of LED chips, LED packages and other LED products decreased by RMB22.7 million, or 13.4%, from RMB170.2 million for the same period in 2018 to RMB147.5 million for the Period.

### Geographical market

In terms of geographical markets from which our revenue was generated, approximately 36.2% of the total revenue for the Period was generated from sales to our PRC customers, as compared to 58.2% for the same period in 2018. The remaining portion was generated from sales to our overseas customers, who are mainly based in certain Asian, North American and European countries.

## Cost of sales

Cost of sales decreased by RMB73.2 million, or 1.7%, from RMB4,322.9 million for the same period in 2018 to RMB4,249.7 million for the Period.

## Gross profit

Gross profit increased by RMB336.8 million, or 49.0%, from RMB687.5 million for the same period in 2018 to RMB1,024.3 million for the Period.

## Other income

Other income decreased by RMB2.4 million, or 2.5%, from RMB96.6 million for the same period in 2018 to RMB94.2 million for the Period, primarily due to (1) the income from government grants decreased by RMB15.3 million, or 28.9%, from RMB53.0 million for the same period in 2018 to RMB37.7 million for the Period; and (2) gain on sales of raw and other materials decreased by RMB5.5 million, or 43.7%, from RMB12.6 million for the same period in 2018 to RMB7.1 million for the Period, but was partially offset by the increase in the bank interest income by RMB6.3 million and increase in imputed interest income of accrued revenue on tariff subsidy by RMB8.8 million for the Period.

## Other gains and losses and other expenses

Other gains and losses and other expenses represents a decrease in losses by RMB585.3 million or 88.9% from a loss recorded of RMB658.3 million for the same period in 2018 to a loss recorded of RMB73.0 million for the Period, which was primarily due to the fact that (1) the recognition of an impairment loss on property, plant and equipment in amount of RMB674.4 million for the same period in 2018, while there was no such impairment loss recognized for the Period; (2) the recognition of an impairment loss on goodwill in amount of RMB6.2 million for the same period in 2018, while there was no such impairment loss recognized for the Period. In the meanwhile it was partially offset by an increase in net foreign exchange loss by RMB54.2 million, or 259.3% from RMB20.9 million for same period in 2018 to RMB75.1 million for the Period.

## Distribution and selling expenses

Distribution and selling expenses increased by RMB180.0 million, or 86.7%, from RMB207.6 million for the same period in 2018 to RMB387.6 million for the Period, principally due to an increase in shipment cost as a result of the increase in sales to overseas customers.

## Administrative expenses

Administrative and general expenses decreased by RMB12.7 million, or 4.3%, from RMB292.2 million for the same period in 2018 to RMB279.5 million for the Period.

## Research and development expenditure

Research and development expenses increased by RMB21.1 million, or 39.9%, from RMB52.9 million for the same period in 2018 to RMB74.0 million for the Period, primarily due to the increase in the expenses on research and development investment and related costs.

### Share of losses of associates

Share of losses of associates for the Period increased by RMB3.28 million, or 8,412.8%, from RMB39,000 for the same period in 2018 to RMB3.32 million for the Period.

### Share of profits of joint ventures

Share of profits of joint ventures for the Period increased by RMB102.7 million, or 9,336.4%, from RMB1.1 million for the same period in 2018 to RMB103.8 million for the Period.

### Finance costs

Finance costs decreased by RMB9.5 million, or 1.5%, from RMB626.1 million for the same period in 2018 to RMB616.6 million for the Period, primarily due to the decrease in effective interest on bonds payable by RMB13.9 million, or 32.9%, from RMB42.2 million for the same period in 2018 to RMB28.3 million for the Period.

### Loss before tax

The loss before tax decreased by RMB810.5 million from RMB1,041.5 million for the same period in 2018 to RMB231.0 million for the Period due to the above reasons.

### Income tax expense

The income tax expense decreased by RMB96.9 million, or 86.1%, from RMB112.5 million for the same period in 2018 to RMB15.6 million for the Period, primarily due to the decrease in deferred tax expense for the Period.

### Loss for the Period

As a result of the reasons stated above, the loss for the Period decreased by RMB907.5 million from RMB1,154.0 million for the same period in 2018 to RMB246.5 million for the Period.

### Inventory turnover days

The inventories of the Group mainly comprise of raw materials, work-in-progress and finished goods. The increase in inventories was mainly due to a decrease in demand for our solar and LED products. Included in the inventory balance as at 30 June 2019 was a write-down of inventories of RMB146.3 million (31 December 2018: RMB152.4 million), which was mainly attributable to inventories bought in previous years at higher prices. The inventory turnover days as at 30 June 2019 was 48.3 days (31 December 2018: 40.2 days), and the increase in inventory turnover days was mainly due to the long shipment days from PRC to our overseas customers.

### Trade receivables turnover days

The trade receivables turnover days as at 30 June 2019 was 124.3 days (31 December 2018: 103.9 days). The increase in turnover days was primarily due to the addition of overseas customers and part of the tariff subsidy to be received by the Group. The trade receivables turnover days as at 30 June 2019 was still within the credit period (normally 30 to 180 days) which the Group granted to its customers.

## Trade payables turnover days

The trade payables turnover days as at 30 June 2019 was 86.2 days (31 December 2018: 68.5 days). Given the established business relationship and the change in the overall market environment, the Group paid to the suppliers in due course based on the credit terms during the Period.

## Indebtedness, liquidity, gearing ratio and capital structure

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings. As at 30 June 2019, the Group's current ratio (current assets divided by current liabilities) was 0.55 (31 December 2018: 0.55) and it was in a negative net cash position.

The Group has always adopted a prudent treasury management policy. The Group places strong emphasis on having funds readily available and accessible and is in a stable liquidity position with sufficient funds in standby banking facilities to cope with daily operations and meet our future development demands for capital. As at 30 June 2019, the Group was in a negative net cash position of RMB13,014.9 million (a negative net cash position: 31 December 2018: RMB12,889.3 million), which included cash and cash equivalents of RMB581.1 million (31 December 2018: RMB754.6 million), bank and other borrowings of RMB11,468.9 million (31 December 2018: RMB11,067.3 million), convertible bonds of RMB1,146.3 million (31 December 2018: RMB1,679.2 million), bonds payable of RMB822.1 million (31 December 2018: RMB830.5 million) and lease liabilities of RMB158.7 million (obligations under finance leases 31 December 2018: RMB66.9 million).

The Group's borrowings were mainly denominated in RMB and HKD while its cash and bank balances, restricted bank deposits and pledged bank deposits were mainly denominated in RMB, HKD and JPY. The Group's net debt to equity ratio (net debt divided by shareholders' equity) increased from 353.4% as at 31 December 2018 to 381.6% as at 30 June 2019.

During the Period, the Group did not enter into any financial instrument for hedging purposes nor did the Group have any currency borrowings and other hedging instruments to hedge against foreign exchange risks (31 December 2018: Nil).

## Contingent liabilities and guarantees

As at 30 June 2019, the Group provided guarantees to independent third parties and a joint venture with a total amount of RMB210.7 million (31 December 2018: RMB364.0 million), of which RMB182.9 million (31 December 2018: RMB276.8 million) has been provided and recognised as a loss allowance on financial guarantee contracts in the statement of financial position. As at 30 June 2019, save as disclosed above, the Group had no significant contingent liabilities.

## Exposure to the fluctuation in exchange rates

Certain bank balances and cash, restricted bank deposits and pledged bank deposits, trade and other receivables, trade and other payables and borrowings are denominated in currencies other than RMB, which exposes the Group to foreign exchange risks. The Group currently does not have a foreign currency hedging policy. However, the Directors closely monitor the foreign exchange risk profile and control exchange exposure through arrangement of foreign currency forward contracts, and will consider hedging significant foreign currency exposure should the need arise.

## Significant investments held and material acquisitions or disposals

During the Period, as disclosed in the circular of the Company dated 30 June 2019 (the "**VSD Circular**"), as well as the announcements on 25 March 2019 (the "**VSD Announcement**"), on 10 December 2018 (after trading hours), Shunfeng Photovoltaic Holdings Limited (the "**Vendor**"), a direct wholly-owned subsidiary of the Company, entered into a sales and purchase agreement (as amended and supplemented on 24 March 2019) (the "**Sale and Purchase Agreement**") with Asia Pacific Resources Development Investment Limited (the "**Purchaser**"), pursuant to which the Vendor agreed to sell 100% of the equity interest in Jiangsu Shunfeng Photovoltaic Technology Company Limited at an aggregate consideration of RMB3,000 million (the "**Disposal**").

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 75%, the Sale and Purchase Agreement and the transactions contemplated thereunder constitute a very substantial 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 100% by Mr. Cheng Kin Ming, a substantial shareholder 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 Rule. The independent shareholders' approval was obtained on 8 August 2019 and the completion of the Disposal is expected to be completed in October 2019.

## Human resources

As at 30 June 2019, the Group had 6,278 employees (31 December 2018: 6,330). The remuneration packages for the current employees include basic salaries, discretionary bonuses and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

## Interim dividend

The Board has resolved not to declare an interim dividend during the Period.

## Lapsing of Subscription Agreement

Reference is made to the joint announcement jointly issued by CAM SPC and the Company dated 9 January 2019, the announcements of the Company in relation to the delay and further delays in despatch of circular dated 30 January 2019, 28 February 2019 and 29 March 2019 (collectively, the "**Subscription Announcements**") and the announcement of the Company dated 31 March 2019 (the "**Lapsing Announcement**").

On 14 December 2018, the Company entered into a subscription agreement with CAM SPC — CNNC-IFMC HK Industry Fund SP as subscriber (the "**Subscriber**") and Jiangsu Shunfeng Photovoltaic Technology Company Limited as guarantor in relation to the subscription of shares of the Company (the "**Shares**") and subsequently entered into a supplemental subscription agreement on 8 January 2019 (collectively referred to as the "**Agreements**"). Pursuant to the Agreements, the Company has agreed to allot and issue to the Subscriber and the Subscriber has agreed to subscribe for certain Shares at a subscription certain subscription price (the "**Subscription**"). In the event that any of the conditions stated in Agreements shall not have been fulfilled (or waived, if applicable) prior to 31 March 2019 (or such later date which may be agreed by the parties to the Agreements), the Agreements shall cease to be of any effect. Please refer to the Subscription Announcements for details.

As disclosed in the Lapsing Announcement, 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 Agreements had ceased to be of any effect as of 31 March 2019 and the Subscription will not proceed. Please refer to the Lapsing Announcement for details.

### Events subsequent to the Period

As disclosed in the poll results of the extraordinary general meeting (the "**EGM**") by the Company dated 8 August 2019 and 12 August 2019 (collectively the "**EGM poll result**") in relation to the Disposal, as more than 50% of the votes were cast in favour of the Resolution, the Resolution was duly passed as an ordinary resolution of the Company at the EGM.

Further, the Group is currently involved in one legal proceeding in relation to an outstanding loan sued by an independent financial institution in PRC. The outstanding loan was matured on 16 August 2019 with principal amount of approximately RMB490.0 million and related interest of approximately RMB66.1 million, totaling RMB556.1 million. As of the date of this report, the Company has already received a settlement plan proposed by the independent financial institution. The Company is reviewing and further negotiating the terms of the settlement including but not limited to extending the loan maturity date and/or to repay the outstanding loan principal and interest partially or wholly. Further announcement will be made as and when necessary in compliance with the Listing Rules.

## FUTURE PROSPECT

Following completion of Disposal, the Group will remain to focus on its current business and develop the Group into a global leading clean energy provider. Specifically, the Company will focus on (i) the solar power businesses including the development and management of solar power plants and manufacturing related equipment; and (ii) LED manufacturing and sales business.

Whilst the Company intends to focus on the above business, reference is made to the voluntary announcement of the Company dated 25 April 2019 in relation to the possible disposal of certain power plants of the Company. For the purpose of optimizing the shareholding and asset structure of the Group, the Company is currently in preliminary discussions with certain potential investors in respect of the possible disposal of certain solar power plants located in the PRC with an aggregate capacity of approximately 300 MW. The Group intends to sell either partly, wholly or in such proportion as to be negotiated and agreed, of such solar power plants to one or more investors (the "**Possible Disposals**"), and the consideration of the Possible Disposals are to be negotiated by parties to the transaction with reference to a reasonable market price. The Group is also actively considering, either as part of or separate from the Possible Disposals, to raise funds for the Group by other ways, including but not limited to alternative refinancing, extension of maturity dates of debts and/or further disposal of solar power plants, if appropriate (together with the Possible Disposals, the "**Proposed Plans**"). Once the Proposed Plans are fully or partly implemented, it is expected to strengthen the financial stability and shareholding and asset structure of the Group and support its long term strategic development. The Proposed Plans are still in preliminary stages, therefore all or part of the Proposed Plans may or may not proceed. Any Proposed Plan will be subject to compliance with the Listing Rules and, if applicable, the approval of the Stock Exchange.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all applicable code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the Period.

## COMPLIANCE WITH THE MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the Period.

## REVIEW OF INTERIM FINANCIAL INFORMATION

The audit committee of the Company has reviewed and agreed with the management on the accounting principles, treatment and practices adopted by the Group and discussed the internal controls and financial reporting matters, including the review of the interim results and the unaudited condensed consolidated interim financial statements for the Period, which have been reviewed by independent auditor in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board, with the Directors. The audit committee of the Company considered that the interim financial statements for the Period are in compliance with the relevant accounting standards, the requirements of the Hong Kong Stock Exchange and the laws of Hong Kong, and the Company has made appropriate disclosure thereof.

## EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following is an extract of the independent auditor's report on the Group's unaudited condensed consolidated financial statements for the Period which has included a material uncertainty related to going concern, but without qualifications:

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

### Material uncertainty related to going concern

Without qualifying our review conclusion, we draw attention to note 1 to the condensed consolidated financial statements, which indicates that as of 30 June 2019, the Group's current liabilities exceeded its current assets by RMB7,522,755,000. In addition, as at 30 June 2019, the Group had capital commitments, contracted for but not provided in the condensed consolidated financial statements, amounting to RMB307,494,000 as disclosed in note 33. As stated in note 1, these conditions along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules for the Period.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("**SFO**")) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code were as follows:

| Name of Shareholder | Capacity | Number of Shares held | Approximate percentage of interest in total issued share capital of the Company |
|---|---|---|---|
| Mr. Wang Yu | Beneficial owner | 18,691,588 (long position) | 0.38% |

Note:

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2019, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

## RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS AND CHIEF EXECUTIVE

No arrangements to which the Company, its subsidiary, its holding company or a subsidiary of its holding company is or was a party to enable the Directors and the chief executive of the Company to acquire benefits by means of acquisitions of shares in or debentures of the Company or any other body corporate subsisted at the end of the Period or at any time during the Period.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors and the chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

| Name of Shareholders | Capacity | Number of Shares held | Approximate percentage of interest in total issued share capital of the Company |
|---|---|---|---|
| Peace Link Services Limited | Beneficial owner (Note 1) | 3,144,049,545 (long position) | 63.10% |
| Asia Pacific Resources Development Investment Limited | Beneficial owner and interest of controlled corporation (Note 2) | 3,219,606,736 (long position) | 64.62% |
| Mr. Cheng Kin Ming | Beneficial owner and interest of controlled corporation (Note 3) | 3,223,058,736 (long position) | 64.69% |
| Coherent Gallery International Limited | Beneficial owner (Note 4) | 268,223,960 (long position) | 5.38% |
| Faithsmart Limited | Interest of controlled corporation (Note 5) | 3,219,606,736 (long position) | 64.62% |
| Mr. Tang Guoqiang | Interest of controlled corporation (Note 6) | 437,118,989 (long position) | 8.77% |

Notes:

1. Peace Link Services Limited is wholly owned by Faithsmart Limited which is in turn wholly owned by Mr. Cheng Kin Ming. As at 30 June 2019, 1,729,163,444 Shares were allotted and issued to Peace Link Services Limited upon the exercise in full of the conversion rights attaching to the convertible bonds subscribed by Peace Link Services Limited pursuant to the subscription agreement dated 31 December 2012, 28 June 2013 and 29 November 2013 entered into with the Company. Peace Link Services Limited held 1,414,886,101 shares in its personal capacity.

2. Asia Pacific Resources Development Investment Limited is the beneficial owner of 100% shareholding in Peace Link Services Limited and, therefore, Asia Pacific Resources Development Investment Limited is deemed to be interested in 3,144,049,545 Shares held by Peace Link Services Limited for the purpose of the SFO. Asia Pacific Resources Development Investment Limited held 75,557,191 Shares in its personal capacity.

3. Mr. Cheng Kin Ming is the beneficial owner of 100% shareholding in Faithsmart Limited. In turn, Faithsmart Limited is the beneficial owner of 100% shareholding in Asia Pacific Resources Development Investment Limited, and in turn, Asia Pacific Resources Development Investment Limited is the beneficial owner of 100% shareholding in Peace Link Services Limited. Therefore, Mr. Cheng Kin Ming is deemed to be interested in 3,219,606,736 Shares held by Asia Pacific Resources Investment Limited and Peace Link Services Limited, and Mr, Cheng Kin Ming held 3,452,000 Shares in his personal capacity.

4. Coherent Gallery International Limited is wholly owned by Mr. Tang Guoqiang.

5. Faithsmart Limited is the beneficial owner of 100% shareholding in Asia Pacific Resources Development Investment Limited and, therefore, Faithsmart Limited is deemed to be interested in 75,557,191 Shares held by Asia Pacific Resources Development Investment Limited and 3,144,049,545 Shares held by Peace Link Services Limited for the purpose of the SFO.

6. Mr. Tang Guoqiang is the beneficial owner of 100% shareholding in Coherent Gallery International Limited and, therefore, Mr. Tang Guoqiang is deemed to be interested in 268,223,960 Shares held by Coherent Gallery International Limited for the purposes of the SFO.

Save as the disclosed above, to the best knowledge of the Directors, as at 30 June 2019, no person (other than the Directors or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

## CHANGE IN INFORMATION OF DIRECTOR

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of the director of the Company subsequent to the publication date of the 2018 annual report are set out below:

| Name of director | Details of changes |
|---|---|
| Mr. Chen Shi | Appointed as an executive director and chief executive officer of Good Resources Holdings Limited (Stock code: 109) with effect from 10 July 2019 |

## PUBLICATION OF INTERIM REPORT

This interim report containing the relevant information required by the Listing Rules is published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (http://www.sfcegroup.com).

By Order of the Board
**Zhang Fubo**
*Chairman*
Hong Kong

27 September 2019

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

**TO THE BOARD OF DIRECTORS OF SHUNFENG INTERNATIONAL CLEAN ENERGY LIMITED**
(incorporated in the Cayman Islands with limited liability)

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of Shunfeng International Clean Energy Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 92, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our review conclusion, we draw attention to note 1 to the condensed consolidated financial statements, which indicates that as of 30 June 2019, the Group's current liabilities exceeded its current assets by RMB7,522,755,000. In addition, as at 30 June 2019, the Group had capital commitments, contracted for but not provided in the condensed consolidated financial statements, amounting to RMB307,494,000 as disclosed in note 33 to the condensed consolidated financial statements. As stated in note 1, these conditions along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 August 2019

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | NOTES | Six months ended 30/06/2019 RMB'000 (Unaudited) | 30/06/2018 RMB'000 (Unaudited) |
|---|---|---|---|
| Revenue | 3 | **5,274,027** | 5,010,369 |
| Cost of sales | | **(4,249,719)** | (4,322,857) |
| Gross profit | | **1,024,308** | 687,512 |
| Other income | 5 | **94,230** | 96,615 |
| Other gains and losses and other expenses | 6 | **(72,998)** | (658,270) |
| Impairment losses under expected credit loss model, net of reversal | 7 | **(19,235)** | 10,424 |
| Distribution and selling expenses | | **(387,612)** | (207,604) |
| Administrative expenses | | **(279,531)** | (292,207) |
| Research and development expenditure | | **(73,954)** | (52,912) |
| Share of losses of associates | | **(3,318)** | (39) |
| Share of profits of joint ventures | | **103,779** | 1,099 |
| Finance costs | 8 | **(616,620)** | (626,131) |
| Loss before tax | 9 | **(230,951)** | (1,041,513) |
| Income tax expense | 10 | **(15,593)** | (112,486) |
| Loss for the period | | **(246,544)** | (1,153,999) |
| Other comprehensive income (expense): | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Share of other comprehensive (expense) income of associates and joint ventures | | **(1,111)** | 518 |
| Exchange differences on translating foreign operations | | **(170)** | (1,542) |
| Fair value gain on: | | | |
| Receivables at fair value through other comprehensive income ("FVTOCI") | | **1,320** | 8,382 |
| Other comprehensive income for the period | | **39** | 7,358 |
| Total comprehensive expense for the period | | **(246,505)** | (1,146,641) |
| (Loss) profit for the period attributable to: | | | |
| Owners of the Company | | **(250,399)** | (1,155,427) |
| Non-controlling interests | | **3,855** | 1,428 |
| | | **(246,544)** | (1,153,999) |
| Total comprehensive (expense) income for the period attributable to: | | | |
| Owners of the Company | | **(250,345)** | (1,146,792) |
| Non-controlling interests | | **3,840** | 151 |
| | | **(246,505)** | (1,146,641) |
| | | **RMB cents** | RMB cents |
| Loss per share | 12 | | |
| — Basic | | **(5.03)** | (26.78) |
| — Diluted | | **(5.03)** | (26.78) |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | NOTES | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **1,974,470** | 2,113,165 |
| Right-of-use assets | | **674,551** | — |
| Solar power plants | 14 | **11,294,453** | 11,558,554 |
| Prepaid lease payments — non-current | | **—** | 445,105 |
| Intangible assets | | **30,367** | 35,861 |
| Interests in associates | 15 | **147,182** | 151,824 |
| Interests in joint ventures | 16 | **254,305** | 197,976 |
| Financial assets at fair value through profit or loss ("FVTPL") | | **3,096** | 3,096 |
| Other non-current assets | | **830,891** | 877,920 |
| Deferred tax assets | 17 | **87,138** | 93,902 |
| Value-added tax recoverable — non-current | | **557,240** | 550,535 |
| Contract assets — non-current | 18B | **259,370** | 206,781 |
| | | **16,113,063** | 16,234,719 |
| **Current assets** | | | |
| Inventories | | **1,203,265** | 1,065,043 |
| Trade and other receivables | 18A | **4,164,524** | 3,873,761 |
| Contract assets | 18B | **9,548** | 38,294 |
| Receivables at FVTOCI | 19 | **175,764** | 244,100 |
| Prepaid lease payments — current | | **—** | 17,477 |
| Value-added tax recoverable — current | | **247,393** | 307,266 |
| Tax recoverable | | **2,181** | 5,990 |
| Prepayments to suppliers | 21 | **788,000** | 813,457 |
| Amount due from an associate | | **—** | 160 |
| Amount due from a joint venture | 20 | **207,973** | 9,261 |
| Restricted bank deposits | 22 | **1,931,239** | 2,039,632 |
| Bank balances and cash | | **581,065** | 754,586 |
| | | **9,310,952** | 9,169,027 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **6,927,561** | 6,507,258 |
| Contract liabilities | | **294,245** | 331,696 |
| Amount due to an associate | | **65,662** | 48,286 |
| Amount due to a joint venture | | **107,676** | 127,374 |
| Obligations under finance leases | 24 | **—** | 38,943 |
| Lease liabilities | | **91,091** | — |
| Provisions | 25 | **946,352** | 1,019,489 |
| Tax liabilities | | **7,932** | 8,327 |
| Bank and other borrowings | 26 | **7,477,597** | 7,148,081 |
| Deferred income | | **4,799** | 6,394 |
| Derivative financial liabilities | 27 | **6,078** | 3,336 |
| Convertible bonds | 28 | **82,614** | 681,872 |
| Bond payables | 29 | **822,100** | 830,471 |
| | | **16,833,707** | 16,751,527 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

| | NOTES | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|---|
| **Net current liabilities** | | **(7,522,755)** | (7,582,500) |
| **Total assets less current liabilities** | | **8,590,308** | 8,652,219 |
| **Capital and reserves** | | | |
| Share capital | 30 | **40,756** | 40,756 |
| Reserves | | **1,944,699** | 2,222,041 |
| Equity attributable to owners of the Company | | **1,985,455** | 2,262,797 |
| Non-controlling interests | | **1,425,196** | 1,384,425 |
| **Total equity** | | **3,410,651** | 3,647,222 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 17 | **38,581** | 38,356 |
| Bank and other borrowings | 26 | **3,991,269** | 3,919,264 |
| Obligations under finance leases | 24 | **—** | 27,909 |
| Lease liabilities | | **67,636** | — |
| Deferred income | | **18,448** | 22,120 |
| Convertible bonds | 28 | **1,063,723** | 997,348 |
| | | **5,179,657** | 5,004,997 |
| | | **8,590,308** | 8,652,219 |

The condensed consolidated financial statements on pages 21 to 92 were approved and authorised for issue by the Board of Directors on 29 August 2019 and are signed on its behalf by:

*DIRECTOR*
**Zhang Fubo**

*DIRECTOR*
**Lu Bin**

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (note a) | FVTOCI reserve RMB'000 | Exchange reserve RMB'000 | Convertible bonds equity reserve RMB'000 (note b) | Share-based payment reserve RMB'000 (note c) | Statutory surplus reserve RMB'000 (note d) | Accumulated deficits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2018 (restated and audited) | 34,876 | 5,360,199 | (1,070,422) | 8,941 | 48,252 | 2,704,790 | 83,615 | 30,744 | (3,248,548) | 3,952,447 | 1,313,300 | 5,265,747 |
| (Loss) profit for the period | – | – | – | – | – | – | – | – | (1,155,427) | (1,155,427) | 1,428 | (1,153,999) |
| Other comprehensive income (expense) for the period | – | – | – | 8,382 | 253 | – | – | – | – | 8,635 | (1,277) | 7,358 |
| Total comprehensive income (expense) for the period | – | – | – | 8,382 | 253 | – | – | – | (1,155,427) | (1,146,792) | 151 | (1,146,641) |
| Recognition of share-based payment of Lattice Power Group | – | – | – | – | – | – | 15,773 | – | – | 15,773 | 10,745 | 26,518 |
| Transfer of profit for the period in relation to Jiangsu Changshun and Nine Disposal Entities to non-controlling interests (note e) | – | – | – | – | – | – | – | – | (20,211) | (20,211) | 20,211 | – |
| At 30 June 2018 (unaudited) | 34,876 | 5,360,199 | (1,070,422) | 17,323 | 48,505 | 2,704,790 | 99,388 | 30,744 | (4,424,186) | 2,801,217 | 1,344,407 | 4,145,624 |
| At 1 January 2019 (audited) | 40,756 | 6,076,424 | (1,070,422) | (1,586) | 48,867 | 2,030,490 | 113,460 | 30,744 | (5,005,936) | 2,262,797 | 1,384,425 | 3,647,222 |
| (Loss) profit for the period | – | – | – | – | – | – | – | – | (250,399) | (250,399) | 3,855 | (246,544) |
| Other comprehensive income (expense) for the period | – | – | – | 1,320 | (1,266) | – | – | – | – | 54 | (15) | 39 |
| Total comprehensive income (expense) for the period | – | – | – | 1,320 | (1,266) | – | – | – | (250,399) | (250,345) | 3,840 | (246,505) |
| Recognition of share-based payment of Lattice Power Group | – | – | – | – | – | – | 5,909 | – | – | 5,909 | 4,025 | 9,934 |
| Impact upon maturity of the Fourth CB (as defined in note 28(d)) (note f) | – | – | – | – | – | (329,922) | – | – | 329,922 | – | – | – |
| Transfer of profit for the period in relation to Jiangsu Changshun and Nine Disposal Entities to non-controlling interests (note e) | – | – | – | – | – | – | – | – | (32,906) | (32,906) | 32,906 | – |
| At 30 June 2019 (unaudited) | 40,756 | 6,076,424 | (1,070,422) | (266) | 47,601 | 1,700,568 | 119,369 | 30,744 | (4,959,319) | 1,985,455 | 1,425,196 | 3,410,651 |

Notes:

a. Special reserve mainly include:

i. the special reserve arose on a group reorganisation ("Group Reorganisation") in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in year 2011. The shareholders of the Company made a contribution of an aggregate amount of approximately RMB233,968,000 to the Company for the purpose to acquire the entire equity interests of Jiangsu Shunfeng Photovoltaic Technology Co., Ltd. ("Jiangsu Shunfeng"). The difference between the acquisition consideration paid and the paid-in capital and capital reserve of Jiangsu Shunfeng acquired of approximately RMB30,004,000 is regarded as special reserve arising on group reorganisation; and

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2019

Notes: (Continued)

a. Special reserve mainly include: (Continued)

   ii the carrying amount of the Group's interest in relation to Jiangsu Changshun and Nine Disposal Entities in respect of the Group's 2015 Proposed Disposal transaction as detailed in note 2B(i)(e) as at 18 December 2015 to non-controlling interests as to reflect the transfer of their equity interests to Chongqing Future completed on 18 December 2015.

   As set out in note 2B(i)(e), a Termination Agreement was entered into to terminate the 2015 Proposed Disposal with immediate effect on 21 June 2016. As at 30 June 2019, the entire equity interest of Jiangsu Changshun has not yet been transferred back to the Group, and the Group's entire interests in Jiangsu Changshun and the Nine Disposal Entities kept being accounted for as non-controlling interests.

b. Convertible bonds equity reserve represents the value of the equity conversion component of the convertible bonds as set out in note 28.

c. On 20 May 2015, the Company entered into share purchase agreements with the existing shareholders of and individuals holding options in Lattice Power Corporation (collectively referred to as the "Sellers") in relation to the acquisition of 59% of the equity interest in Lattice Power Corporation (together with its subsidiaries collectively referred to as the "Lattice Power Group"), for a consideration which shall be satisfied in full by the Company allotting and issuing 392,307,045 new Shares to the Sellers. Lattice Power Corporation is a company incorporated in Cayman Islands and is principally engaged in manufacturing and sales of LED products. The acquisition was completed on 6 August 2015 and Lattice Power Corporation has become an indirectly held subsidiary of the Company. The acquisition of Lattice Power Corporation has been accounted for as business combination.

   One of the Sellers, Asia Pacific Resources Development Investment Limited ("AP Resources"), a limited company incorporated in the British Virgin Islands, is indirectly wholly owned by a substantial shareholder of the Company. The 9,453,921 shares acquired by the Group from AP Resources account for 11.46% of the equity interest in Lattice Power Group.

   On 18 April 2006, Lattice Power Corporation approved the 2006 Global Share Plan (the "2006 ESOP") and common shares of Lattice Power Corporation were reserved to grant to its employees, directors and consultants in certain years. As of 5 August 2015, a total number of 28,000,000 options have been granted to the employees, directors and consultants of Lattice Power Group.

   On 6 August 2015, the date on which Lattice Power Group was acquired by the Group, pursuant to the agreement entered into between the Company and the ESOP option holders (the "ESOP Sellers"), the Company acquired from the ESOP Sellers 14,280,000 common shares of Lattice Power Corporation, which were converted from 51% of the outstanding options granted (the "51% ESOP Completion").The 2006 ESOP was terminated prior to the 51% ESOP Completion but the remaining 49% of the outstanding options, with a total number of 13,720,000 convertible shares in accordance with the original terms according to the 2006 ESOP would continue to be valid after the 51% ESOP Completion ("49% Outstanding Options"). Please refer to note 48 of the 2016 annual report for details.

   Share-based payment reserve represents the recognition of share-based payments of Lattice Power Group, being the remuneration cost for post- combination service.

   The Group recognised total share-based payment expense of RMB9,934,000 for the period ended 30 June 2019 (six months ended 30 June 2018: RMB26,518,000) in relation to the options granted by Lattice Power Corporation.

d. In accordance with relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") to the statutory surplus reserve. Appropriation to statutory surplus reserve shall be approved by the shareholders and may cease if the balance of the statutory surplus reserve has reached 50% of the relevant PRC subsidiaries' registered capital.

   The PRC subsidiaries may, upon the approval by a resolution, convert their surplus reserve into capital in proportion to their then existing shareholdings. However, when converting the PRC subsidiaries' statutory surplus reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

e. Profit for the period related to Jiangsu Changshun and the Nine Disposal Entities consolidated to the Group was transferred from the Group's accumulated deficits to non-controlling interests. Although the 2015 Proposed Disposal had been terminated on 21 June 2016, the legal ownership of Jiangsu Changshun and the Nine Disposal Entities was still kept by Chongqing Future and had not yet been transferred back to the Group and in the opinion of the directors of the Company, the related profit for both periods should also be accounted for as "non-controlling interests" as at 30 June 2019 and 2018, accordingly.

f. The Fourth CB has been matured on 15 June 2019, the outstanding principal balance and interest payable totalling RMB703,071,000 had become immediately repayable, with the corresponding convertible bonds equity reserve of RMB329,922,000 had been reclassified to the accumulated deficits upon maturity. Details of the Fourth CB were set out in note 28(d).

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Net cash from operating activities | **794,982** | 1,273,499 |
| Investing activities | | |
| Withdrawal of restricted bank deposits | **758,080** | 719,432 |
| Receipt from government grants | **831** | 859 |
| Bank interest income received | **9,683** | 3,395 |
| Interest income received from advances to independent third parties | **—** | 36,305 |
| Payments of leasehold lands | **(23,408)** | (1,778) |
| Placement of restricted bank deposits | **(649,687)** | (1,011,450) |
| Payments of property, plant and equipment | **(128,523)** | (164,521) |
| Payment for construction cost in respect of solar power plants | **(77,671)** | (105,056) |
| Purchases of intangible assets | **(238)** | (287) |
| Capital contribution to an associate | **—** | (150) |
| Capital contribution to joint ventures | **(24,137)** | (180,000) |
| Loan advanced to independent third parties | **(170,548)** | (35,935) |
| Loan repayment from independent third parties | **10,590** | 114,799 |
| Proceeds on disposal of subsidiaries (note 32) | **—** | 61,302 |
| Proceeds on disposal of property, plant and equipment (note 13) | **24,274** | 11,597 |
| Proceeds on disposal of solar power plants (note 14) | **—** | 24,499 |
| Proceeds on partial disposal of meteocontrol Electric Power (note 16(b)) | **—** | 2,200 |
| Dividend received from associates | **490** | 200 |
| Dividend received from a joint venture | **71,800** | 10,845 |
| Receipt of consideration receivable in respect of subsidiaries previously disposed | **8,707** | 2,000 |
| Net cash used in investing activities | **(189,757)** | (511,744) |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2019

| | Six months ended 30/06/2019 RMB'000 (Unaudited) | 30/06/2018 RMB'000 (Unaudited) |
|---|---|---|
| Financing activities | | |
| New bank and other borrowings raised | **711,434** | 607,462 |
| Repayment of bank and other borrowings | **(829,431)** | (655,434) |
| Repayment of obligations under finance leases | **—** | (31,195) |
| Repayment of lease liabilities | **(21,375)** | — |
| Interest paid | **(334,397)** | (311,724) |
| Interest paid for bond payables | **(11,463)** | (38,500) |
| Interest paid for convertible bonds | **(15,294)** | (47,607) |
| Repayment of bond payables | **(8,537)** | (156,000) |
| Repayment of convertible bonds | **(217,694)** | — |
| Interest paid for consideration received in advance in respect of the 2015 Proposed Disposal (as defined in note 2B(i)(e)) | **(1,524)** | (1,589) |
| Advance from independent third parties | **25,600** | 14,379 |
| Repayment to independent third parties | **(76,300)** | (296,203) |
| Net cash used in financing activities | **(778,981)** | (916,411) |
| Net decrease in cash and cash equivalents | **(173,756)** | (154,656) |
| Cash and cash equivalents at beginning of the period | **754,586** | 663,686 |
| Effect of exchange rate change for the period | **235** | (1,024) |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | **581,065** | 508,006 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The directors of the Company have given careful consideration to the going concern of the Group in light of the fact that the Group reported as at 30 June 2019 and as of that date, the current liabilities exceeded its current assets by RMB7,522,755,000. In addition, as at 30 June 2019, the Group had capital commitments, contracted for but not provided in the condensed consolidated financial statements, amounting to RMB307,494,000 as disclosed in note 33 to the condensed consolidated financial statements.

In order to reduce the Group's highly indebted position and enhance its liquidity both in the short and long term, a development plan has been formulated by the directors of the Company which comprises, inter alia, (i) seeking alternative refinancing and/or extension of due dates of the relevant debts with banks and financial institutions and convertible bondholders; (ii) disposing certain of its solar power plants and/or subsidiaries that hold solar power plants; and (iii) the Disposal (as defined in note 36) (collectively the "Development Plan").

The Group has been actively taking the following procedures to improve the Group's short term liquidity and to address the Group's concern in respect of all expiring debts in the near future.

### Alternative refinancing and/or extension of due dates of the relevant debts

Currently, the Group is negotiating with banks and financial institutions to seek for refinancing and/or extension of due dates of the relevant debts as follows:

- negotiating with banks and financial institutions for renewal of the loans from banks/financial institutions and extension of the maturity date.

  (i) the borrowings from Sino Alliance Capital Ltd. ("Sino Alliance") and China Minsheng Banking Corporation Ltd. Hongkong Branch ("CMBC-HK") have a corresponding outstanding principal balance of HKD2,500 million (equivalent to RMB2,199 million) and HKD980 million (equivalent to RMB862 million) (collectively the "Outstanding Loans from Sino Alliance and CMBC-HK"), which had been matured before 30 June 2019.

  **CMBC-HK**
  The management has successfully extended the maturity of the loan from CMBC-HK of HKD980 million to 20 August 2019 and has been expired up to date of this condensed consolidated financial statements.

## 1. BASIS OF PREPARATION (Continued)

### Alternative refinancing and/or extension of due dates of the relevant debts (Continued)

(i) (Continued)

**CMBC-HK (Continued)**

Through the recent negotiation with the management of CMBC-HK, the Group has agreed to additionally pledge its entire 59% of equity interest in Lattice Power Group to CMBC-HK, and CMBC-HK has expressed its intention to agree a further extension of the due date of its principal amount to 18 December 2020 and to settle the outstanding principal of HKD980 million by four instalments, including a) outstanding interest expense of HKD30 million and outstanding principal amount of HKD30 million to be settled before 31 October 2019; b) amount of HKD270 million or in respect of the possible disposal of the First Batch of Solar Power Plants (as defined below), 20% of consideration for the equity interests of the project companies holding the solar power plants, whichever is higher, to be extended to 31 December 2019; c) amount of HKD300 million to be extended to 15 July 2020; and d) the remaining balance to be extended to 18 December 2020. The Company expects both parties to sign a formal extension agreement in September 2019.

**Sino Alliance**

The Group, the Purchaser (as defined in note 36), Mr. Cheng Kin Ming ("Mr. Cheng" or a substantial shareholder of the Company) and Sino Alliance have entered into another supplementary agreement dated 28 June 2019 to further extend the due dates, pursuant to which, including:

(a) amount of HKD1,300 million to be settled in two instalments under different scenarios: (i) HKD500 million or in respect of the possible disposal of the First Batch of Solar Power Plants (as defined below), 50% of consideration for the equity interests of the project companies holding the solar power plants, whichever is higher, to be extended to 31 December 2019 or 30 business days after completion of the Group's possible disposal of the First Batch of Solar Power Plants (as defined below), whichever is earlier; and (ii) the remaining balances to be settled on 31 December 2020 or 30 business days after completion of the Group's possible disposal of the Remaining Solar Power Plants (as defined below), if any and whichever is earlier; and

(b) the remaining HKD1,200 million will be extended to 30 September 2020 or transferred to the Purchaser upon completion of the Disposal, whichever is earlier.

(ii) out of the other short-term bank and other borrowings (excluding the Outstanding Loans from Sino Alliance and CMBC-HK) with a carrying amount of RMB3,352 million as at 30 June 2019, RMB535 million of which has been subsequently matured, among which in respect of a borrowing from an independent financial institution of a principal balance of RMB490 million due on 16 August 2019, the Group received a writ of lawsuit from the independent financial institution requesting the Group to repay the outstanding loan principal of RMB490 million and related interest of RMB66.1 million, totalling RMB556.1 million immediately. The management of the Company is currently in negotiation with the independent financial institution for a settlement plan, including to extend the loan maturity and/or to repay the outstanding loan principal and interests partially or wholly.

## 1. BASIS OF PREPARATION (Continued)

### Alternative refinancing and/or extension of due dates of the relevant debts (Continued)

(ii) (Continued)

Save as the above, the management of the Group is confident that a significant portion of the Group's bank and other borrowings can be successfully renewed upon maturity in view of the Group's historical successful experiences in refinancing expiring debts;

- negotiating with banks not to exercise their rights to demand for immediate payment in respect of the Group's bank borrowings that had breached certain financial covenants, which amounted to a total of RMB1,062 million as at 30 June 2019. The management of the Group is confident that these banks will not demand for immediate repayment based on our negotiations with these banks;
- negotiating with banks and financial institutions to obtain approval to drawdown borrowings under the available facilities and/or obtain additional credit facilities. The management of the Group is of the view that the Group is able to obtain new or additional financing from banks and financial institutions by pledging its available assets as collaterals.

### Dispose of its certain solar power plants and/or subsidiaries that hold solar power plants

The Group has also considered disposing certain of its solar power plants and/or subsidiaries that hold solar power plants as its remedial action plan. The Group has sourced potential buyers of its solar power plants in order to prevent the Group from any shortage of fund.

The Group is currently in discussions with certain potential investors in respect of the possible disposal of certain solar power plants located in the PRC with an aggregate capacity of approximately 300 megawatt (which equals to 300,000,000 watts). The Group might, subject to the negotiation results with the potential investors, dispose of its solar power plants with higher aggregate capacity (here collectively referred to as the "First Batch of Solar Power Plants").

Apart from the possible disposal of the First Batch of Solar Power Plants, subject to the Group's funding requirement and working capital conditions, the Group might further dispose of more solar power plants, which are located in the PRC (the "Remaining Solar Power Plants").

The Group intends to sell the First Batch of Solar Power Plants and Remaining Solar Power Plants with reference to the reasonable market price. However, subject to the market conditions or other unforeseen factors, the transaction price of the solar power plants might be determined at certain discount to their carrying amounts in order to facilitate the transaction.

## 1. BASIS OF PREPARATION (Continued)

### Dispose of its certain solar power plants and/or subsidiaries that hold solar power plants (Continued)

In addition, as part of the remedial plan, the Group has been negotiating with other banks and financial institutions requesting to delay the loan repayment schedule, as well as seeking for other financing resources (including but not limited to advances from its shareholders), in order to enable the Group to have adequate time to obtain proceed from the disposal of solar power plants that might require and adequate working capital to repay the maturing debts from time to time.

For the measure to enhance the Group's long term liquidity, the directors believe that by completing the Disposal, the Group can benefit from the improvement of its balance sheet position by reducing its debt level which, in turn, strengthen the Group's liquidity in the long term. The Group is currently proceeding the completion of the Disposal, and the relevant resolution has already been passed during the extraordinary general meeting held subsequent to the end of the reporting period on 8 August 2019. Details of which are set out below:

### The Disposal

As set out in note 36, upon completion of the Disposal, (1) the Group will receive cash payments of RMB1,945 million from the Purchaser, out of which RMB1,745 million shall be used to repay the amount due to the Disposal Group (as defined in note 36) as soon as possible after the Purchaser has made the payment of RMB1,945 million; (2) the Purchaser will also assume the Company's borrowings from Sino Alliance partially for a principal amount of HKD1,200 million (equivalent to RMB1,056 million); and (3) in addition, pursuant to the legally binding deed of waiver entered into on 24 March 2019 and the relevant supplementary agreement entered into on 15 May 2019, Peace Link (as defined in note 28(a)), a company beneficially owned by Mr. Cheng, will waive the Third CB (as defined in note 28) with a principal balance of HKD1,948 million (equivalent to the pre-agreed rate of exchange of RMB1,546 million), which will be matured in April 2024. As such, the completion of the Disposal will significantly reduce the highly indebted position and finance costs of the Group, strengthen its liquidity in the long term.

The directors, after due and careful enquiry and after taking into account the Development Plan and the financial resources available to the Group, including cash and cash equivalents on hand, cash flows from operating activities and available facilities, are of the opinion that the Group will have sufficient working capital for its present operating requirements and for at least the next twelve months from the end of reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### 2A. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs that are mandatory effective for annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| IFRS 16 | Leases |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Amendments to IFRS9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendments, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015–2017 Cycle |

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17") and the related interpretations.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases (Continued)*

##### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16*

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

*Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

*As a lessee*

**Allocation of consideration to components of a contract**

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

**Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to leases of motor vehicles/ machinery and office equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases (Continued)*

##### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)*

*As a lessee (Continued)*

**Right-of-use assets**

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

**Leasehold land and building**

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

**Refundable rental deposits**

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases (Continued)*

##### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)*

*As a lessee (Continued)*

**Lease liabilities**

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases* (Continued)

##### *2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)*

*As a lessee (Continued)*

**Lease modifications**

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

**Taxation**

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

##### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16*

*Definition of a lease*

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases* (Continued)

##### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)*

*As a lessee*

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities range from 4% to 9.52%.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases* (Continued)

*2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)*

*As a lessee (Continued)*

| | NOTES | At 1 January 2019 RMB'000 |
|---|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | | 116,566 |
| Less: recognition exemption — short-term leases | | (1,900) |
| recognition exemption — low value assets | | (3,235) |
| Undiscounted lease liabilities at 31 December 2018 | | 111,431 |
| Lease liabilities relating to operating leases discounted at incremental borrowing rate recognised upon application of IFRS 16 | | 70,559 |
| Add: obligation under finance leases recognised at 31 December 2018 | (b) | 66,852 |
| payables for purchase of leasehold lands recognised at 31 December 2018 | (c) | 38,015 |
| Lease liabilities as at 1 January 2019 | | 175,426 |
| Analysed as | | |
| Current | | 86,277 |
| Non-current | | 89,149 |
| | | 175,426 |

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases* (Continued)

##### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)*

*As a lessee (Continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | NOTES | **Right-of-use assets** RMB'000 |
|---|---|---|
| Right-of-use assets relating to operating leases recognised upon application of IFRS 16 | | 70,559 |
| Reclassified from prepaid lease payments | (a) | 462,582 |
| Amounts included in property, plant and equipment under IAS 17 | | |
| — Assets previously under finance leases | (b) | 139,790 |
| | | 672,931 |
| By class: | | |
| Leasehold lands | | 498,298 |
| Land and buildings | | 165,993 |
| Machinery and office equipment | | 8,640 |
| | | 672,931 |

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB17,477,000 and RMB445,105,000 respectively were reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB139,790,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB38,943,000 and RMB27,909,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(c) The carrying amounts of payables for purchasing leasehold lands as at 1 January 2019, which was included in trade and other payables, was adjusted to lease liabilities at transition.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2A. Principal Accounting Policies (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases* (Continued)

##### *2.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)*

*As a lessee (Continued)*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | NOTES | **Carrying amounts previously reported at 31 December 2018** | **Adjustments** | **Carrying amounts under IFRS 16 at 1 January 2019** |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| **Non-current assets** | | | | |
| Property, plant and equipment | (b) | 2,113,165 | (139,790) | 1,973,375 |
| Right-of-use assets | | — | 672,931 | 672,931 |
| Prepaid lease payments | | | | |
| — non-current | (a) | 445,105 | (445,105) | — |
| **Current assets** | | | | |
| Prepaid lease payment | | | | |
| — current | (a) | 17,477 | (17,477) | — |
| **Current liabilities** | | | | |
| Obligations under finance leases | (b) | 38,943 | (38,943) | — |
| Trade and other payables | (c) | 6,507,258 | (38,015) | 6,469,243 |
| Lease liabilities | (b), (c) | — | 86,277 | 86,277 |
| **Non-current liabilities** | | | | |
| Lease liabilities | (b) | — | 89,149 | 89,149 |
| Obligations under finance leases | (b) | 27,909 | (27,909) | — |

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in the Group's annual financial statements for the year ended 31 December 2018 and note 2A above, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (i) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

##### *(a) Judgements in determining the performance obligations and timing of satisfaction of performance obligations*

Note 2A describes the revenue recognition basis to each of the Group's revenue stream. The recognition of each of the Group's revenue stream requires judgement by the management of the Group in determining the timing of satisfaction of performance obligations.

In making their judgement, the directors of the Company consider the detailed criteria for recognition of revenue set out in IFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the details terms of transaction as stipulated in the contracts entered into with its customers and counterparties.

For the sales of Solar Products and LED Products, the directors of the Company has assessed that the Group has a present right to payment from the customers for the goods transferred at a point in time upon finalisation, delivery and acceptance of the deliverable units. In addition, in accordance with industry business practice, the Group provides warranty in connection with the sale of solar module product, with post-sale tasks including the replacement and repair service for defects in material and workmanship as set out in note 25(a). First of all, the customer does not have the option to purchase a warranty separately. Secondly, it is necessary for the Group to perform the tasks to provide the assurance that a product complies with agreed-upon specifications, then the tasks likely do not give rise to a performance obligation. The warranty is not distinct and therefore, the management of the Group has satisfied that there is only a single performance obligation and recognise the revenue at a point in time. The warranty provision is the Group accounts for the warranty in the provision.

For sales of electricity, the directors of the Company has assessed that the Group has a present right to payment from the state grid company for the electricity generated and transmitted at a point in time upon finalisation.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (i) Critical judgements in applying accounting policies (Continued)

*(a) Judgements in determining the performance obligations and timing of satisfaction of performance obligations (Continued)*

For tariff subsidy generated from those solar power plants which had been registered to the Reusable Energy Tariff Subsidy Catalogue (可再生能源電價附加資金補助目錄) (the "Catalogue"), the Group has obtained unconditional and present right to payment since the electricity generated and transmitted at a point in time. On the other hand, for tariff subsidy generated from those solar power plants which had not been registered into Catalogue, since the Group has not obtained unconditional right to payment yet, therefore, the Group recognised accrued revenue on tariff subsidy with corresponding debit to contract assets, accordingly.

For the provision of installation services of PV System on rooftop of building owned by the customers, the related revenue is recognised over time as the directors of the Company has assessed that the Group's performance creates and enhances an assets that the customer controls as the Group performs.

For the provision of Plant Operation and Services, the directors of the Company has assessed that the customers simultaneously receive and consume the benefits provided by the Group's performances as the Group performs and the Group has an enforceable right to payment for performances completed to date. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time and recognised revenue on a monthly basis at the specified service fee over the contract period.

*(b) Revenue recognition on tariff subsidy on sales of electricity*

Tariff subsidy represents subsidy received and receivables from the government authorities in respect of the Group's solar power generation business. The financial resource for the tariff adjustment is the national renewable energy fund that accumulated through a special levy on the consumption of electricity of end users. The government authorities are responsible to collect and allocate the fund and make settlement through state-owned grid companies to the solar power companies. Tariff subsidy is recognised at its fair value where there is a reasonable assurance that the additional tariff will be received and the Group will comply with all attached conditions, if any.

In August 2013, the National Development and Reform Commission of the PRC ("NDRC") released the New Tariff Notice (the "New Tariff Notice") to launch a new subsidising policy for distributed solar power plants and adjust benchmark on-grid price for electricity generated by centralised solar power plants (which is known as the ground solar plants). In particular, according to the New Tariff Notice, (i) for the centralised solar plants, which will obtain on-grid approval and commence in generating electricity on or after 1 January 2014, the benchmark on-grid price will be set at RMB0.9/KWh, RMB0.95/KWh and RMB1.0/KWh for the projects in energy zones I, II and III respectively which are categorised based on local solar energy resources and generating plant construction costs; and (ii) the new standards will apply to the power stations registered after 1 September 2013 and those registered before 1 September 2013 but which did not commence in generating electricity until after 1 January 2014.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (i) Critical judgements in applying accounting policies (Continued)

##### *(b) Revenue recognition on tariff subsidy on sales of electricity (Continued)*

According to the New Tariff Notice, for centralised solar power plants, which obtained on-grid approval and commence in generating electricity prior to 31 December 2013, the prevailing on-grid tariff of RMB1.0/KWh still applied.

In December 2015, NDRC released another updated tariff notice (the "2015 Tariff Notice") to renew the subsidising policy for distributed solar power plants and adjust benchmark on-grid price for electricity generated by centralised solar power plants registered after 1 January 2016 and those registered before 1 January 2016 but which did not commence in generating electricity until 30 June 2016 (the "New Solar Power Plants"). According to 2015 Tariff Notice, the benchmark on-grid price will be set at RMB0.8/KWh, RMB0.88/KWh and RMB0.98/KWh for the New Solar Power Plants in energy zones I, II and III respectively.

In December 2016, NDRC released another updated tariff notice (the "2016 Tariff Notice") to renew the subsidising policy for distributed solar power plants and adjust benchmark on-grid price for electricity generated by centralised solar power plants registered after 1 January 2017 and those registered before 1 January 2017 but which did not commence in generating electricity until 30 June 2017 (the "New Solar Power Plants"). According to 2016 Tariff Notice, the benchmark on grid price will be set at RMB0.65/KWh, RMB0.75/KWh and RMB0.85/KWh for the New Solar Power Plants in energy zones I, II and III respectively.

In December 2017, NDRC released another updated tariff notice (the "2017 Tariff Notice") to renew the subsidising policy for distributed solar power plants and adjust benchmark on-grid price for electricity generated by centralised solar power plants registered after 1 January 2018 and those registered before 1 January 2018 but which did not commence in generating electricity until 30 June 2018 (the "New Solar Power Plants"). According to 2017 Tariff Notice, the benchmark on grid price will be set at RMB0.55/KWh, RMB0.65/KWh and RMB0.75/KWh for the New Solar Power Plants in energy zones I, II and III respectively.

In April 2019, NDRC released another updated tariff notice (the "2019 Tariff Notice") to renew the subsidising policy for distributed solar power plants and adjust benchmark on-grid price for electricity generated by centralised solar power plants registered after 30 June 2019 and those registered before 30 June 2019 but which did not commence in generating electricity until 30 June 2019 (the "New Solar Power Plants"). According to 2019 Tariff Notice, the benchmark on-grid price will be set at RMB0.4/KWh, RMB0.45/KWh and RMB0.55/KWh for the New Solar Power Plants in energy zones I, II and III respectively.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (i) Critical judgements in applying accounting policies (Continued)

*(b) Revenue recognition on tariff subsidy on sales of electricity (Continued)*

Pursuant to the New Tariff Notice, a set of standardised procedures for the settlement of the tariff subsidy has come into force since 2013 and approvals for the registration in the Catalogue on a project-by-project basis are required before the allocation of funds to the state grid companies, which then would make settlement to the Group. Registrations to the Catalogue is an ongoing process and the Catalogue is opened for registrations on a batch by batch basis. Revenue on tariff adjustments on electricity sales of RMB509,891,000 from the state grid companies in the PRC was recognised for the six-month period ended 30 June 2019 in which tariff adjustments amounting to RMB45,984,000 relating to certain of the on-grid solar power plants of the Group are still pending registration to the Catalogue.

In making their judgment, the directors of the Company, taking into account the legal opinion as advised by the Group's legal advisor and the fact that all previous registrations of the group entities operating the solar power plants to the Catalogue were successfully completed with reference to the requirements and conditions for the registration in the Catalogue, considered that all of the Group's solar power plants currently in operation had met the requirement and conditions as stipulated in the New Tariff Notice for the entitlement of the tariff subsidy when the electricity was delivered on grid.

In the opinion of the directors of the Company, the recognition of accrued revenue on tariff subsidy is proper based on their judgement and by reference to those previous successful registrations of the Group's operating solar power plants to the Catalogue, as well as taking into account the opinion from the Group's legal advisor, that all of the Group's operating power plants had been qualified for, and had met, all the requirements and conditions as required according to the requirements and conditions for the registration in the Catalogue. The directors of the Company are confident that all of the Group's operating power plants were able to be registered in the Catalogue in due course and the accrued revenue on tariff subsidy are fully recoverable but only subject to timing of allocation of funds from the government, after considering that there are no bad debt experiences with the state grid companies in the past and the tariff subsidy is fully funded by the PRC government.

*(c) Revenue recognition on certain tariff subsidy with variable consideration*

For tariff subsidy generated from those solar power plants which had not been registered into the Catalogue, the relevant revenue from these tariff subsidy are considered to contain variable consideration, and is recognised only to the extent that it is highly probable that a significant reversal will not occur.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (i) Critical judgements in applying accounting policies (Continued)

***(d) Recognition of adjusting revenue for the time value of money ("significant financing component") on tariff subsidy generated from solar power operation***

The Group's accrued revenue on tariff subsidy are receivables from the state grid company. The Group has a present right to payment once the electricity generated and transmitted on grid. However, the contract entered between the state grid and the Group does not set an explicit credit terms to the settlement of accrued revenue on tariff subsidy. The management of the Group considered that the settlement period is more than 1 year, in accordance with the historical settlement record and experience in the past few years. As a result, there is an adjustment in respect of significant finance component to the recognition of tariff subsidy generated from solar power plants on sales of electricity.

***(e) Incomplete transaction on the 2015 Proposed Disposal of Jiangsu Changshun and Nine Disposal Entities***

On 16 December 2015, the wholly-owned subsidiaries of the Company, including Jiangxi Shunfeng Photovoltaic Investment Co. Ltd. ("Jiangxi Shunfeng"), Shanghai Shunneng Investment Co., Ltd. ("Shanghai Shunneng") Jiangsu Changshun Xinhe New Energy Co., Ltd. ("Jiangsu Changshun") and Chongqing Future Investment Co., Ltd. ("Chongqing Future"), an independent third party, entered into a sale and purchase agreement, pursuant to which the Group agreed to dispose of its entire equity interest in Jiangsu Changshun and nine subsidiaries (the "Nine Disposal Entities"), which were engaged in the construction, development and operation of different photovoltaic projects and power plants in different provinces in the PRC, to Chongqing Future for a total cash consideration of RMB1,199,600,000 to be settled in three instalments and subject to certain conditions precedent and price adjustment mechanism (the "2015 Proposed Disposal").

As part of the transaction, the Group also entered into a management contract with Chongqing Future ("Management Contract"), pursuant to which the management team of the Nine Disposal Entities, which continued to be appointed by the Group for a period of four years till the end of the Profit Guarantee Period, is responsible for the management and operation of the nine solar power plant projects held by the Nine Disposal Entities, (including all the decisions of their relevant activities), and the Group in return would receive a fixed amount of management fee and entitled to certain variable amount of return, determined based on the performance of the Nine Disposal Entities. In the opinion of the directors, the Group is still able to control the Nine Disposal Entities. In addition, the 2015 Proposed Disposal was also subject to the fulfilment of certain conditions precedent (including to obtain necessary permits related to the development of the solar power plants, consents and approvals from the relevant government authorities) prior to the payment due date of the second instalment of the cash consideration on 30 September 2016, the 2015 Proposed Disposal was considered as incomplete as at 31 December 2015.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (i) Critical judgements in applying accounting policies (Continued)

*(e) Incomplete transaction on the 2015 Proposed Disposal of Jiangsu Changshun and Nine Disposal Entities (Continued)*

On 18 December 2015, the Group transferred the entire equity interest of Jiangsu Changshun and the Nine Disposal Entities to Chongqing Future. However, pursuant to the sales and purchase agreement, the Group was required to obtain necessary permits related to the development of the solar power plants, consents and approvals from the relevant government authorities in respect of the solar power plant development projects held by the Nine Disposal Entities. In addition, if a fellow subsidiary of Chongqing Future fails to obtain the consent of the relevant government authorities in respect of the 2015 Proposed Disposal and/or raise relevant funds for Chongqing Future to pay outstanding consideration to the Group by 30 September 2016, Chongqing Future would have the option to choose not to pay the second instalment of the cash consideration in the amount of RMB499,600,000, the sale and purchase agreement could be cancelled by either the Group or Chongqing Future and the legal ownership in respect of the equity interests of Jiangsu Changshun and the Nine Disposal Entities will be returned to the Group and the Group's received first instalment of RMB650,000,000 would be refunded to Chongqing Future plus interest carried at People's Bank of China ("PBOC") rate in accordance with the sale and purchase agreement.

In the opinion of the Directors, the Directors considered that the eventual completion of the 2015 Proposed Disposal was subject to the fulfilment of certain conditions precedent prior to the payment due date of the second instalment of the cash consideration on 30 September 2016, the 2015 Proposed Disposal was considered as incomplete as at 31 December 2015. In addition, the Directors considered that the Group was able to exercise control over Jiangsu Changshun and the Nine Disposal Entities as at 31 December 2015 due to the Management Contract entered into between the Group and Chongqing Future, hence, the carrying amounts of net assets of Jiangsu Changshun and the Nine Disposal Entities were consolidated to the Group. However, since the Group has already transferred the legal ownership in respect of the entire equity interests of Jiangsu Changshun and the Nine Disposal Entities to Chongqing Future on 18 December 2015, in the opinion of the Directors, the Group's entire interests in them should be accounted for as non-controlling interests since then and will be subject to re-assessment upon progress of the development of the above mentioned proposed transactions.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (i) Critical judgements in applying accounting policies (Continued)

*(e) Incomplete transaction on the 2015 Proposed Disposal of Jiangsu Changshun and Nine Disposal Entities (Continued)*

As at 31 December 2015, the Group received cash consideration of RMB650,000,000 from Chongqing Future, which was accounted for as consideration received in advance and included in other payables, accordingly.

On 21 June 2016, an agreement to terminate the 2015 Proposed Disposal (the "Termination Agreement") was entered into with immediate effect, as certain conditions precedent were expected not to be fulfilled on or before 30 June 2016. Pursuant to the Termination Agreement, the Group shall return the consideration received in advance of RMB650,000,000 together with the interest calculated at 9% per annum from 21 December 2015 within one year after execution of the Termination Agreement. The legal ownership in respect of the 100% entire equity interest of Jiangsu Changshun and the Nine Disposal Entities will be transferred back to the Group after the return of the entire amount of RMB650,000,000 together with the relevant interest by the Group to Chongqing Future, and the repayment of the borrowings of RMB500,000,000 together with the relevant interest by the Group to Chongqing Trust (as defined in note 32(iii) in the annual report of 2017).

Details of the developments of the consideration received in advance from Chongqing Future and the borrowings from Chongqing Trust are set out in note 32(iii) in the annual report of 2017.

During the current interim period, the related accumulated interest of RMB1,524,000 was returned. As at 30 June 2019, the outstanding balance of RMB33,484,000 and the related accumulated interest of RMB92,000 had not yet been returned by the Group and were included in other borrowings and other payables, respectively.

In addition, as at 30 June 2019, the legal ownership in respect of the entire equity interest of Jiangsu Changshun has not yet been transferred back to the Group, and the Group's entire interests in Jiangsu Changshun and the Nine Disposal Entities were continued to be accounted for as non-controlling interests and the related gain for the current interim period amounting to RMB32,906,000 (six months ended 30 June 2018: RMB20,211,000) has been transferred from accumulated deficits to non-controlling interests as at 30 June 2019.

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (ii) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months after the end of the reporting period.

*(a) Provision*

Wuxi Suntech Power Co., Ltd ("Wuxi Suntech") and its subsidiaries (collectively referred to as the "Wuxi Suntech Group") provides warranty in terms of replacement and repairing service for defects in materials and workmanship for a period ranging from 5 to 25 years for the items sold to customers. The management of the Group has based on its best estimate of both future costs and the probability of incurring warranty claims, made the provision for warranty. When the future costs and the probability of incurring warranty claims are higher or lower than expected and where events or changes in circumstances indicate that the amount of warranty provision may not be adequate or may be excessive, such difference will impact the carrying values and warranty provision expenses in the years in which such estimate has been changed.

As at 30 June 2019, the carrying amount of warranty provision was RMB763,491,000 (31 December 2018: RMB742,648,000).

*(b) Recognition of deferred tax assets*

The Group recognised deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit would be available against which the deductible temporary difference can be utilised.

In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be adjusted to the amount of goodwill during the measurement period or charged to profit or loss after the measurement period in which such a reversal takes place.

As at 30 June 2019, the Group has recognised deferred tax asset arising from unused tax losses and other deductible temporary differences in the amount of RMB87,138,000 (31 December 2018: RMB93,902,000) as set out in note 17.

*(c) Useful lives and residual values of property, plant and equipment and solar power plants*

The directors of the Company determine the residual values, useful lives and related depreciation charges for the Group's property, plant and equipment and solar power plants. These estimates are based on the historical experience of the actual residual values and useful lives of plant and equipment and solar power plant of similar nature and functions. In addition, the directors of the Company assess impairment whenever events or changes in circumstances and technical innovation of solar products indicate that the carrying amount of an asset may not be recoverable (see below for details). As at 30 June 2019, the total carrying amount of the Group's property, plant and equipment and solar power plants is RMB13,268,923,000 (31 December 2018: RMB13,671,719,000).

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (ii) Key sources of estimation uncertainty (Continued)

***(d) Impairment of property, plant and equipment and solar power plants***

In assessing the impairment of property, plant and equipment and solar power plants, the Group is required to estimate the recoverable amount of the cash-generating units or the relevant assets. The recoverable amount, which is determined by the higher of the value-in-use calculation and fair value less cost to sell, requires the Group to estimate the future cash flows expected to arise from the cash-generating units or the relevant assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which result in downward revision of future cash flows, further impairment loss may arise. As at 30 June 2019, the carrying amount of the property, plant and equipment is RMB1,974,470,000 (net of impairment of RMB891,179,000 (31 December 2018: RMB2,113,165,000 (net of impairment of RMB969,362,000)), and the carrying amount of solar power plants is RMB11,294,453,000 (net of impairment of RMB237,049,000) (31 December 2018: RMB11,558,554,000 (net of impairment of RMB237,049,000)).

***(e) Provision of ECL for trade and other receivables, contract assets and receivables included in other non-current assets***

The ECL in relation of trade and other receivables, contract assets and receivables included in other non-current assets is calculated by the management of the Group, and is assessed individually for the customers/debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

The assessment of ECL is based on historical observed default rates and adjusted by forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

***(f) Write-down of inventories***

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down inventories in that period. As at 30 June 2019, the carrying amount of the Group's inventories is approximately RMB1,203,265,000 (net of allowance for inventories of RMB146,323,000) (31 December 2018: carrying amount of RMB1,065,043,000 (net of allowance for inventories of RMB152,361,000)).

## 2. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### 2B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Continued)

#### (ii) Key sources of estimation uncertainty (Continued)

*(g) Impairment of prepayments to suppliers and deposits paid for engineering, procurement and construction ("EPC") of solar power plants*

The Group makes prepayments and deposits to suppliers and EPC contractors in accordance with the purchase contracts and EPC contracts entered into with the suppliers and EPC contractors, respectively. These prepayments and deposits are to be offset against future purchases from suppliers and future progress billings received from EPC contractors, respectively.

The Group does not require collateral or other security against its prepayments to suppliers and deposits paid to EPC contractors. The Group performs ongoing evaluation of impairment of prepayments to suppliers and deposits to EPC contractors due to a change of market conditions and the financial conditions of its suppliers and EPC contractors. The evaluation also takes into account the quality, timeframe of the products and status and progress of the EPC of solar power plants to be delivered to the Group. When the prepayments and deposits would not be recovered as expected and the credit quality of the suppliers or the EPC contractors changed, the Group would impair the prepayments to suppliers and deposits paid to EPC contractors.

As at 30 June 2019, the carrying amounts of prepayments to suppliers were RMB788,000,000 (net of allowance for doubtful debt of RMB12,896,000) (31 December 2018: RMB813,457,000 (net of allowance of doubtful debt of RMB12,896,000)) and the carrying amount of deposits paid for EPC of solar power plants included in other non-current assets were RMB32,593,000 (without allowance for doubtful debt) (31 December 2018: RMB57,298,000 (without allowance for doubtful debt)).

*(h) Fair value measurements and valuation processes*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Chief Financial Officer ("CFO") of the Company determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The CFO reports the findings to the board of directors at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and liabilities.

## 3. REVENUE

### Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services over time and at a point in time in the following major product lines. This is consistent with the revenue information that is disclosed for each reportable and operating segment under IFRS 8:

#### A. Disaggregation of revenue from contracts with customers

**For the six-month period ended 30 June 2019**

| | For the six months ended 30 June 2019 | | | | |
|---|---|---|---|---|---|
| **Segments** | Sales of goods (comprising Solar Products and LED Products) RMB'000 (Unaudited) | Installation services of PV Systems RMB'000 (Unaudited) | Service income from Plant Operation and Services RMB'000 (Unaudited) | Revenue from sales of electricity RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
| **Types of goods or service** | | | | | |
| Sales of electricity | — | — | — | 217,332 | 217,332 |
| Tariff subsidy | — | — | — | 509,891 | 509,891 |
| Sales of goods | 4,469,489 | — | — | — | 4,469,489 |
| Service income | — | 4,005 | 73,310 | — | 77,315 |
| **Total** | 4,469,489 | 4,005 | 73,310 | 727,223 | 5,274,027 |
| **Geographical markets** | | | | | |
| Mainland China | 1,218,237 | 4,005 | — | 687,860 | 1,910,102 |
| India | 659,453 | — | — | — | 659,453 |
| Japan | 422,040 | — | — | 22,690 | 444,730 |
| Germany | 368,069 | — | 73,310 | — | 441,379 |
| South Africa | 283,369 | — | — | — | 283,369 |
| Australia | 225,670 | — | — | — | 225,670 |
| Portugal | 214,436 | — | — | — | 214,436 |
| Spain | 169,143 | — | — | — | 169,143 |
| Netherlands | 123,954 | — | — | — | 123,954 |
| Hungary | 117,294 | — | — | — | 117,294 |
| Other countries | 667,824 | — | — | 16,673 | 684,497 |
| **Total** | 4,469,489 | 4,005 | 73,310 | 727,223 | 5,274,027 |
| **Timing of revenue recognition** | | | | | |
| A point in time | 4,469,489 | — | — | 727,223 | 5,196,712 |
| Over time | — | 4,005 | 73,310 | — | 77,315 |
| **Total** | 4,469,489 | 4,005 | 73,310 | 727,223 | 5,274,027 |

## 3. REVENUE (Continued)

### Disaggregation of revenue (Continued)

#### A. Disaggregation of revenue from contracts with customers (Continued)

For the six-month period ended 30 June 2018

| | For the six months ended 30 June 2018 | | | | |
|---|---|---|---|---|---|
| **Segments** | Sales of goods (comprising Solar Products and LED Products) RMB'000 (Unaudited) | Installation services of PV Systems RMB'000 (Unaudited) | Service income from Plant Operation and Services RMB'000 (Unaudited) | Revenue from sales of electricity RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
| **Types of goods or service** | | | | | |
| Sales of electricity | – | – | – | 234,778 | 234,778 |
| Tariff subsidy | – | – | – | 437,995 | 437,995 |
| Sales of goods | 4,127,758 | – | – | – | 4,127,758 |
| Service income | – | 146,946 | 62,892 | – | 209,838 |
| **Total** | 4,127,758 | 146,946 | 62,892 | 672,773 | 5,010,369 |
| **Geographical markets** | | | | | |
| Mainland China | 2,200,792 | 146,946 | 430 | 626,824 | 2,974,992 |
| India | 664,981 | – | – | – | 664,981 |
| Japan | 296,058 | – | – | 27,276 | 323,334 |
| Germany | 222,410 | – | 62,462 | 18,164 | 303,036 |
| Australia | 80,052 | – | – | – | 80,052 |
| Russia | 69,355 | – | – | – | 69,355 |
| Cyprus | 67,669 | – | – | – | 67,669 |
| Israel | 50,973 | – | – | – | 50,973 |
| Lithuania | 47,467 | – | – | – | 47,467 |
| Chile | 37,042 | – | – | – | 37,042 |
| Other countries | 390,959 | – | – | 509 | 391,468 |
| **Total** | 4,127,758 | 146,946 | 62,892 | 672,773 | 5,010,369 |
| **Timing of revenue recognition** | | | | | |
| A point in time | 4,127,758 | – | – | 672,773 | 4,800,531 |
| Over time | – | 146,946 | 62,892 | – | 209,838 |
| **Total** | 4,127,758 | 146,946 | 62,892 | 672,773 | 5,010,369 |

## 3. REVENUE (Continued)

### Disaggregation of revenue (Continued)

#### B. Performance obligations for contracts with customers

*Sales of Solar Products and LED Products*

In respect of sales of solar cells, solar modules, photovoltaic systems ("PV Systems") and related products (collectively known as "Solar Products") and sales of GaN-on-Silicon substrate light-emitting diode ("LED") epitaxial wafers and chips (collectively known as "LED Products"), the Group recognises the revenue at a point in time when there is persuasive evidence that the control of Solar Products and LED Products has been transferred to the customer, the customer has adequate control over the product and the Group has no unfulfilled obligations that effect customer acceptance products.

*Sales of electricity*

Revenue arising from the sales of electricity is recognised at a point in time when electricity is generated and transmitted.

The revenue from sales of electricity is based on the on-grid benchmark tariff rates of local coal-fired power plants, which vary across provinces and can be adjusted by the government. It is currently settled by state grid companies for the electricity generated by the solar power plants on a monthly basis.

*Tariff Subsidy*

Tariff subsidy represents subsidy received and receivable from the government authorities in respect of the Group's solar power generation business. Tariff subsidy is recognised at its fair value where there is a reasonable assurance that the additional tariff will be received and the Group will comply with all attached conditions, if any.

The revenue from tariff subsidy is based on the difference between the feed-in-tariff regime implemented by the government for the provision of subsidy to the solar power plants operators and the revenue from sales of electricity.

*Installation services of PV Systems*

The Group's contractual performance is delivering service to certain distributed solar power plants, which are often built on rooftop of buildings owned by the customers and small in scale. The Group provided the installation services on the rooftop of the buildings at the request of the customers. The Group recognises the revenue over time by reference to the progress towards the satisfaction of stage of completion.

*Provision of Plant Operation and Services (as defined below)*

Provision of solar plant operation related services, representing the operation of an internet monitoring portal which enables the generation of yield reports, solar energy forecasts, system ratings, satellite controlled historic and current solar irradiation data, solutions for network management as well as services covering all aspects of plant operation, plant monitoring and plant optimisation, and in the long-term, the repowering, dismantling and recycling of plants ("Plant Operation and Services");

Revenue arising from the provision of Plant Operation and Services is recognised over time. The Group's contractual performance is responsible for the provision of Plant Operation and Services. The Group recognises revenue over the contract period on a monthly basis at the specified service fee in the service contracts.

## 4. SEGMENT INFORMATION

Those reportable and operating segments of the Group were presented for both periods as follows:

(1) Manufacturing and sales of Solar Products and installation services of PV systems;

(2) Solar power generation;

(3) Plant Operation and Services; and

(4) Manufacturing and sales of LED Products.

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

**For the six-month period ended 30 June 2019**

| | Manufacturing and sales of Solar Products and installation services of PV Systems RMB'000 (Unaudited) | Solar power generation RMB'000 (Unaudited) | Plant Operation and Services RMB'000 (Unaudited) | Manufacturing and sales of LED Products RMB'000 (Unaudited) | Sub-total RMB'000 (Unaudited) | Elimination RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | | |
| External sales | 4,325,991 | 217,332 | 73,310 | 147,503 | 4,764,136 | — | 4,764,136 |
| Tariff subsidy | — | 509,891 | — | — | 509,891 | — | 509,891 |
| | 4,325,991 | 727,223 | 73,310 | 147,503 | 5,274,027 | — | 5,274,027 |
| Inter-segment revenue | — | 615 | — | — | 615 | (615) | — |
| Segment revenue | 4,325,991 | 727,838 | 73,310 | 147,503 | 5,274,642 | (615) | 5,274,027 |
| **Segment profit (loss)** | 13,993 | 178,813 | (6,237) | 18,063 | 204,632 | — | 204,632 |
| Unallocated income | | | | | | | |
| — Bank interest income | | | | | | | 9,683 |
| Unallocated expenses | | | | | | | |
| — Central administration costs | | | | | | | (18,672) |
| — Finance costs | | | | | | | (616,620) |
| — Change in fair value of derivative financial liabilities | | | | | | | (2,742) |
| Loss allowance reversed on financial guarantee contract provided for a joint venture | | | | | | | 92,307 |
| Share of losses of associates | | | | | | | (3,318) |
| Share of profits of joint ventures | | | | | | | 103,779 |
| Loss before tax | | | | | | | (230,951) |

## 4. SEGMENT INFORMATION (Continued)

For the six-month period ended 30 June 2018

| | Manufacturing and sales of Solar Products and installation services of PV Systems RMB'000 (Unaudited) | Solar power generation RMB'000 (Unaudited) | Plant Operation and Services RMB'000 (Unaudited) | Manufacturing and sales of LED Products RMB'000 (Unaudited) | Sub-total RMB'000 (Unaudited) | Elimination RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|---|---|---|---|---|---|
| **Segment revenue** | | | | | | | |
| External sales | 4,104,461 | 234,778 | 62,892 | 170,243 | 4,572,374 | — | 4,572,374 |
| Tariff subsidy | — | 437,995 | — | — | 437,995 | — | 437,995 |
| | 4,104,461 | 672,773 | 62,892 | 170,243 | 5,010,369 | — | 5,010,369 |
| Inter-segment revenue | — | — | — | — | — | — | — |
| Segment revenue | 4,104,461 | 672,773 | 62,892 | 170,243 | 5,010,369 | — | 5,010,369 |
| **Segment (loss) profit** | (670,021) | 281,798 | (262) | 7,359 | (381,126) | — | (381,126) |
| Unallocated income | | | | | | | |
| — Bank interest income | | | | | | | 3,395 |
| Unallocated expenses | | | | | | | |
| — Central administration costs | | | | | | | (18,592) |
| — Finance costs | | | | | | | (626,131) |
| Loss allowance recognised on financial guarantee contract provided for a joint venture | | | | | | | (15,638) |
| Share of losses of associates | | | | | | | (39) |
| Share of profits of joint ventures | | | | | | | 1,099 |
| Other expenses | | | | | | | (4,481) |
| Loss before tax | | | | | | | (1,041,513) |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (loss) profit represents the loss incurred or profit earned by each segment without allocation of bank interest income, loss on change in fair value of derivative financial liabilities, central administration costs, finance costs, other expenses, loss allowance (reversed) recognised on financial guarantee contracts provided for a joint venture and share of results of associates and joint ventures. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

## 4. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| **Segment assets** | | |
| Manufacturing and sales of Solar Products and installation services of PV Systems | **6,289,573** | 6,365,575 |
| Solar power generation | **15,414,742** | 15,277,735 |
| Plant Operation and Services | **64,444** | 39,830 |
| Manufacturing and sales of LED Products | **530,396** | 564,071 |
| Total segment assets | **22,299,155** | 22,247,211 |
| Other unallocated assets | **3,124,860** | 3,156,535 |
| Consolidated assets | **25,424,015** | 25,403,746 |
| **Segment liabilities** | | |
| Manufacturing and sales of Solar Products and installation services of PV systems | **8,720,211** | 8,534,096 |
| Solar power generation | **9,995,388** | 9,899,767 |
| Plant Operation and Services | **43,334** | 33,872 |
| Manufacturing and sales of LED Products | **285,244** | 273,732 |
| Total segment liabilities | **19,044,177** | 18,741,467 |
| Other unallocated liabilities | **2,969,187** | 3,015,057 |
| Consolidated liabilities | **22,013,364** | 21,756,524 |

- All assets are allocated to operating segments other than bank balances and cash, restricted bank deposits, financial assets at FVTPL, interests in associates, interests in a joint venture and amounts due from an associate and a joint venture; and

- All liabilities are allocated to operating segments other than lease liabilities, obligations under finance leases, liability component of the Group's convertible bonds, loss allowance (reversed) on financial guarantee contract provision for a joint venture, amounts due to an associate and a joint venture, derivative financial liabilities and bonds payable liable for centralised financing of the Group.

## 4. SEGMENT INFORMATION (Continued)

### Revenue analysed by major products

The following table sets forth a breakdown of the Group's revenue for the six months ended 30 June 2019 and 2018:

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Sales of solar wafers | **—** | 10,638 |
| Sales of solar cells | **536,691** | 677,421 |
| Sales of solar modules | **3,673,125** | 3,193,503 |
| Sales of PV Systems | **105,110** | 66,172 |
| Other solar products | **7,060** | 9,781 |
| | **4,321,986** | 3,957,515 |
| Sales of LED products | **147,503** | 170,243 |
| Sales of goods | **4,469,489** | 4,127,758 |
| Sales of electricity | **217,332** | 234,778 |
| Tariff subsidy (note) | **509,891** | 437,995 |
| | **727,223** | 672,773 |
| Installation services of PV systems | **4,005** | 146,946 |
| Plant Operation and Services | **73,310** | 62,892 |
| | **5,274,027** | 5,010,369 |

Note: The amount represents the tariff subsidy which were approximately 41% to 90% (six months ended 30 June 2018: 41% to 84%) of the total electricity sales, adjusted with the amount of significant financing component. The amount is subject to the allocation of funds by the relevant government authorities and was determined in accordance with the on-grid unit tariff rate approval document and the electricity supply contracts.

## 5. OTHER INCOME

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Bank interest income | **9,683** | 3,395 |
| Interest income arising from advances to third parties | **—** | 1,990 |
| Government grants (note) | **37,720** | 53,046 |
| Gain on sales of raw and other materials | **7,128** | 12,632 |
| Technical advisory income | **3,474** | 5,408 |
| Imputed interest income of accrued revenue on tariff subsidy | **26,246** | 17,364 |
| Others | **9,979** | 2,780 |
| | **94,230** | 96,615 |

Note: The government grants represent the amount received from the local government by the entities of the Group operating in the PRC. Government grants of approximately (a) RMB34,459,000 (six months ended 30 June 2018: RMB43,381,000) represents unconditional incentive received in relation to activities carried out by the Group and (b) RMB3,261,000 (six months ended 30 June 2018: RMB9,665,000) represents subsidy on the Group's prior acquisition of land use rights and machineries amortised to profit or loss in the current interim period.

## 6. OTHER GAINS AND LOSSES AND OTHER EXPENSES

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **Other gains and losses** | | |
| Impairment loss recognised on property, plant and equipment (note ii) | **—** | (674,356) |
| Impairment loss recognised on goodwill (note i) | **—** | (6,237) |
| Gain on disposal of solar power plants (note 14) | **—** | 11,673 |
| Gain on disposal of subsidiaries (note 32) | **—** | 31,586 |
| Gain on disposal of property, plant and equipment (note 13) | **2,393** | 5,536 |
| Loss on change in fair value of derivative financial liabilities (notes iii and 27) | **(2,742)** | — |
| Net foreign exchange loss | **(75,124)** | (20,866) |
| Others | **2,475** | (1,125) |
| | **(72,998)** | (653,789) |
| **Other expenses** | | |
| Provision on legal claims, net (note 25) | **—** | (4,481) |
| | **(72,998)** | (658,270) |

Notes:

(i) During the period ended 30 June 2018, due to adverse changes in market conditions, including the release of the new governmental policy, the management of the Group reviews the recoverable amounts of the relevant cash generating units ("CGUs") (which is the higher of its value-in-use and its fair value less costs of disposal) to determine whether there is any impairment loss. As a result, the goodwill of RMB6,237,000 was fully impaired during the period ended 30 June 2018, accordingly.

(ii) During the period ended 30 June 2018, due to the adverse change of market conditions, in the opinion of the directors of the Company, the recoverable amount of the machinery and equipment in respect of the Group's manufacturing and sales of Solar Products business is estimated to be less than its carrying amount, and the carrying amount of the relevant machinery and equipment are reduced to the extent of its recoverable amount, with an impairment loss of RMB674,356,000.

(iii) Amount for the six months ended 30 June 2019 represented the loss of change in fair value in respect of the warrants liabilities arising from previous acquisition of Lattice Power Group of RMB2,742,000. There was no significant change of such fair value during the six months ended 30 June 2018.

## 7. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | For the six months ended | |
|---|---|---|
| | **30 June 2019** | 30 June 2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Loss allowances recognised (reversed) on: | | |
| — Trade receivables — goods and services | **47,449** | (27,811) |
| — Other receivables | **64,793** | (12,301) |
| — Financial guarantee contracts, net (note 25(b)) | **(93,007)** | 29,688 |
| | **19,235** | (10,424) |

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

During the current interim period, the Group provided RMB176,817,000 impairment allowance, in particular, a specific loss allowance of RMB98,473,000 has been made to individual debtors due to evidences of receivables being credit-impaired or with its credit risk being significantly increased.

## 8. FINANCE COSTS

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Interest on bank and other borrowings | **441,646** | 420,770 |
| Finance charges of discounting bills receivable | **26** | 4,132 |
| Interest on obligation under finance leases | **—** | 4,257 |
| Interest on lease liabilities | **4,727** | — |
| Effective interest on convertible bonds (notes 23(iv) and 28) | **141,436** | 145,277 |
| Effective interest on bonds payable | **28,339** | 42,174 |
| Interest on amounts due to independent third parties (note 23(ii)) | **1,458** | 11,265 |
| Total borrowing costs | **617,632** | 627,875 |
| Less: amounts capitalised | **(1,012)** | (1,744) |
| | **616,620** | 626,131 |

Borrowing costs capitalised during the current interim period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.55% (six months ended 30 June 2018: 6.75%) per annum to expenditure on qualifying assets.

## 9. LOSS BEFORE TAX

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Loss before tax has been arrived at after charging (crediting): | | |
| Staff costs | **303,551** | 310,340 |
| Including: recognition of share-based payment expense of Lattice Power Group | **9,934** | 26,518 |
| Capitalised in inventories | **(50,409)** | (40,523) |
| | **253,142** | 269,817 |
| Impairment loss on property, plant and equipment | **—** | 674,356 |
| Impairment loss on goodwill | **—** | 6,237 |
| Warranty provided (included in cost of sales) | **31,809** | 29,939 |
| Cost of inventories recognised as expense | **3,924,589** | 3,973,363 |
| Write-down of inventories | **11,247** | 25,738 |
| Depreciation of property, plant and equipment | **96,750** | 180,765 |
| Depreciation of completed solar power plants | **293,321** | 319,555 |
| Release of prepaid lease payments | **—** | 8,641 |
| Depreciation of right-of-use assets | **21,788** | — |
| Amortisation of intangible assets | **5,661** | 2,724 |
| Total depreciation and amortisation | **417,520** | 511,685 |
| Capitalised in inventories | **(24,205)** | (39,050) |
| | **393,315** | 472,635 |

## 10. INCOME TAX EXPENSE

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Current tax: | | |
| PRC Enterprise Income Tax | **6,711** | 1,270 |
| Other jurisdictions | **1,494** | — |
| Under provision in prior periods: | | |
| PRC Enterprise Income Tax | **331** | 609 |
| | **8,536** | 1,879 |
| Deferred tax charge (note 17) | **7,057** | 110,607 |
| | **15,593** | 112,486 |

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

Certain subsidiaries of the Group, being enterprises engaged in public infrastructure projects, under the PRC Tax Law and its relevant regulations, are entitled to tax holidays of 3-year full exemption followed by 3-year 50% exemption commencing from their respective years in which their first operating incomes were derived. Certain subsidiaries of the Company which was engaged in the public infrastructure project had their first year with operating incomes in 2014.

On 17 November 2017, Jiangsu Shunfeng and certain subsidiaries of the Wuxi Suntech renewed "High Technology Enterprise" status for 3 years that entitled them a preferential tax rate of 15% for a period of three years starting from 2017 to 2019 according to PRC Tax Law.

On 23 August 2017, the Lattice Power Group renewed "High Technology Enterprise" status for 3 years that entitled the Lattice Power Group a preferential tax rate of 15% for year 2017 to 2019 according to PRC Tax Law.

For those subsidiaries of the Company located in Japan, the corporate tax rate is 30.86% (six months ended 30 June 2018: 30.86%).

Certain subsidiaries of the S.A.G. Interests (as defined in note 45 in the annual report of 2016) were located in Switzerland, Austria, Germany and Czech Republic, of which corporate tax rate is approximately 23%, 25%, 30% and 20%, respectively.

The remaining subsidiaries of the Company established in the PRC are subject to PRC Enterprise Income Tax rate of 25% in both periods.

## 11. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2019 and 2018. The directors have determined that no dividend will be paid in respect of the current interim period.

## 12. LOSS PER SHARE — BASIC AND DILUTED

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | Six months ended | |
|---|---|---|
| | **30/06/2019** | 30/06/2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **Loss** | | |
| Loss for the period attributable to owners of the Company for the purposes of basic loss per share | **(250,399)** | (1,155,427) |
| Effect of dilutive potential ordinary shares: Interest on convertible bonds (note) | **—** | — |
| Loss for the purposes of diluted loss per share | **(250,399)** | (1,155,427) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **4,982,375,490** | 4,314,151,191 |
| Effect of dilutive potential ordinary shares: — convertible bonds (note) | **—** | — |
| Weighted average number of ordinary shares for the purposes of diluted loss per share | **4,982,375,490** | 4,314,151,191 |

Note: The computation of diluted loss per share for both periods does not assume the conversion of convertible bonds, because this would result in a decrease in loss per share.

## 13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group had additions to property, plant and equipment of approximately RMB121,549,000 (six months ended 30 June 2018: RMB201,762,000).

In addition, during the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB21,881,000 (six months ended 30 June 2018: RMB6,061,000) for a total sum of cash consideration of RMB24,274,000 (six months ended 30 June 2018: RMB11,597,000), resulting in a gain on disposal of RMB2,393,000 (six months ended 30 June 2018: a gain on disposal of RMB5,536,000).

## 14. MOVEMENTS IN SOLAR POWER PLANTS

During the six months ended 30 June 2019, the Group had additions to solar power plant under construction (including capital expenditure for incompleted solar power plants) of approximately RMB19,143,000 (six months ended 30 June 2018: RMB30,797,000). During the current interim period, there were solar power plants with the carrying amounts of RMB110,785,000 (six months ended 30 June 2018: RMB466,819,000) transferred from solar power plants under construction to completed solar power plants, including one (six months ended 30 June 2018: one) solar power plant completed the trial operation and was successfully connected to grids and generate electricity. As at 30 June 2019, completed solar power plants and solar power plants under construction amounted to RMB10,700,679,000 (31 December 2018: RMB10,875,405,000) and RMB593,774,000 (31 December 2018: RMB683,149,000), respectively.

Furthermore, during the six months ended 30 June 2018, the Group disposed of one solar power plant located in Japan with an aggregate carrying amount of Japanese Yen ("JPY") 270,529,000 (equivalent to RMB12,826,000) for a cash consideration of JPY469,726,000 (equivalent to RMB24,499,000), resulting in a gain on disposal of JPY199,197,000 (equivalent to RMB11,673,000). No solar power plants have been disposed of during the current interim period.

## 15. INTERESTS IN ASSOCIATES

### For the six-month period ended 30 June 2019

During the current interim period, there was no material acquisition nor disposal of equity interest in associates.

### For the six-month period ended 30 June 2018

Except for the reclassification of interest in meteocontrol Electric Power of RMB4,081,000 from interests in joint ventures, which is mentioned in note 16, there was no material acquisition nor disposal of equity interest in associates for the six months ended 30 June 2018.

## 16. INTERESTS IN JOINT VENTURES

### (a) Suntech Solar Power South Africa (PYA) Ltd

**For the six-month period ended 30 June 2019**

Suntech Solar Power South Africa (PYA) Ltd ("Suntech South Africa") is a company established by the Group and an independent third party, and mainly engaged in sales of Solar Products in South Africa. The Group completed cash injection of USD20,000 (equivalent to RMB137,000) into Suntech South Africa during the current interim period for the 66% equity interest of Suntech South Africa, while as decisions about all relevant activities of Suntech South Africa require the unanimous consent of both the Group and the other shareholder of Suntech South Africa, Suntech South Africa is accounted for as a joint venture of the Group, accordingly.

### (b) meteocontrol Electric Power Development Co., Ltd.

**For the six-month period ended 30 June 2018**

meteocontrol Electric Power Development Co., Ltd. ("meteocontrol Electric Power") ("旻投電力發展有限公司") is a company mainly engaged in solar plant operation and services established by the Group and one of its senior management on 28 May 2016. The Group injected RMB4,900,000 by cash into meteocontrol Electric Power for the 49% equity interest of meteocontrol Electric Power while as decisions about all relevant activities of meteocontrol Electric Power require the unanimous consent of both the Group and the other shareholder of meteocontrol Electric Power the voting power of the Group in meteocontrol Electric Power is regarded as 50% and meteocontrol Electric Power is accounted for as a joint venture of the Group, accordingly. During the six months ended 30 June 2018, meteocontrol Electric Power declared dividends distribution and the Group has received cash dividends of RMB10,845,000, which was proportional to 49% of the Group's equity interest in meteocontrol Electric Power. In addition, the Group transfer its 22% of equity interest to independent third parties at the proportional share of the net asset value of meteocontrol Electric Power for a cash consideration of RMB2,200,000, with no gain or loss recognised. Upon completion of the partial disposal, the voting power of the Group was reduced to 27% and the requirement of unanimous consent for the decisions about all relevant activities, had been withdrawn, then the carrying amount of RMB4,081,000 of interest in meteocontrol Electric Power was then accounted for an associate of the Group.

### (c) Jiangsu Shunfeng New Energy Technology Co., Ltd.

**For the six-month period ended 30 June 2019**

During the six months ended 30 June 2019, the Group injected the remaining capital contribution of RMB24,000,000 by cash into Shunfeng New Energy (as defined below).

**For the six-month period ended 30 June 2018**

During the six months ended 30 June 2018, Jiangsu Shunfeng New Energy Technology Co., Ltd. ("Shunfeng New Energy") ("江蘇順風新能源科技有限公司") is newly established by the Group and the other independent third party. Shunfeng New Energy is a company mainly engaged in researching, manufacturing and sales of high-quality and efficient solar products with latest advanced and innovative technology in the market. The Group injected RMB180,000,000 by cash into Shunfeng New Energy with the remaining unpaid capital contribution of RMB24,000,000 for the 51% equity interest of Shunfeng New Energy, while as decisions about all relevant activities of Shunfeng New Energy require the unanimous consent of both the Group and the other shareholder of Shunfeng New Energy, the voting power of the Group in Shunfeng New Energy is regarded as 50% and Shunfeng New Energy is accounted for as a joint venture of the Group, accordingly.

## 17. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Deferred tax assets | **87,138** | 93,902 |
| Deferred tax liabilities | **(38,581)** | (38,356) |
| | **48,557** | 55,546 |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and preceding interim periods:

| | Write-down of inventories RMB'000 | Allowance for receivables RMB'000 | Deferred income RMB'000 | Valuation of long-term assets RMB'000 | Provision for warranty costs RMB'000 | Tax losses RMB'000 | Impairment and accelerated depreciation relating to property, plant and equipment RMB'000 | Others RMB'000 (note) | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 (audited) | 5,312 | 1,226 | 7,839 | (45,681) | 50,512 | 69,234 | 52,355 | 26,052 | 166,849 |
| Exchange adjustments | – | – | – | (310) | – | – | – | (83) | (393) |
| Elimination on disposal of subsidiary | – | – | – | 7,815 | – | – | – | – | 7,815 |
| Credit (charge) to profit or loss | 773 | – | (2,290) | 244 | (33,401) | (39,147) | (44,146) | 7,360 | (110,607) |
| At 30 June 2018 (unaudited) | 6,085 | 1,226 | 5,549 | (37,932) | 17,111 | 30,087 | 8,209 | 33,329 | 63,664 |
| Exchange adjustments | – | – | – | 345 | – | – | – | 83 | 428 |
| Credit (charge) to profit or loss | 1,132 | – | (705) | 195 | 7,669 | (20,330) | (640) | 4,133 | (8,546) |
| At 31 December 2018 (audited) | **7,217** | **1,226** | **4,844** | **(37,392)** | **24,780** | **9,757** | **7,569** | **37,545** | **55,546** |
| Exchange adjustments | **–** | **–** | **–** | **(525)** | **–** | **–** | **–** | **593** | **68** |
| Credit (charge) to profit or loss | **31** | **–** | **(383)** | **243** | **(588)** | **(9,757)** | **(4,393)** | **7,790** | **(7,057)** |
| At 30 June 2019 (unaudited) | **7,248** | **1,226** | **4,461** | **(37,674)** | **24,192** | **–** | **3,176** | **45,928** | **48,557** |

Note: The amount included mainly the deferred tax assets recognised for the future deductible temporary difference arising from accrued expenses.

During the year ended 31 December 2018, the State Taxation Administrative released a notice to extend the period to utilising tax losses from those entities qualified as High Technology Enterprises for a period of 5 years to 10 years. As a result, unrecognised tax losses of RMB3,563,848,000 as at 30 June 2019 (31 December 2018: RMB3,641,258,000) will expired from each of the year 2020 to 2029 (31 December 2018: 2019 to 2028) which are available for offset against future profits. No deferred tax asset has been recognised in respect of above tax losses due to the unpredictability of future profit streams.

## 17. DEFERRED TAX (Continued)

At the end of the current interim period, the Group has deductible temporary differences of RMB3,050,004,000 (31 December 2018: RMB2,730,436,000) not recognised as deferred tax assets as it is not probable these taxable profit will be available against which the deductible temporary differences can be utilised.

Under the Law of the People's Republic of China on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax had not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB493,235,000 as at 30 June 2019 (31 December 2018: RMB305,260,000) as the Group was able to control the timing of the reversal of the temporary differences and it was probable that the temporary differences would not reverse in the foreseeable future. As at 30 June 2019, there was no material temporary differences attributable to accumulated profits of the PRC subsidiaries.

## 18A. TRADE AND OTHER RECEIVABLES

| | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Trade receivables | 1,691,456 | 1,855,163 |
| Less: Allowance for credit losses | (268,174) | (220,803) |
| | 1,423,282 | 1,634,360 |
| Accrued revenue on tariff subsidy (note i) | 2,142,159 | 1,626,801 |
| Total trade receivables and accrued revenue on tariff subsidy | 3,565,441 | 3,261,161 |
| Other receivables | | |
| Prepaid expenses | 19,817 | 25,114 |
| Amounts due from independent third parties (note ii) | 376,103 | 277,933 |
| Consideration receivable for disposal of subsidiaries (notes iii and 32) | 12,030 | 40,468 |
| Amounts due from disposed subsidiaries (note iv) | 29,801 | 40,171 |
| Dividend receivable from an associate | — | 490 |
| Security deposit (note vii) | 107,000 | 107,000 |
| Government subsidy receivable arising from the sales of LED Products (note v) | 21,455 | 79,053 |
| Other deposits | 11,693 | 14,381 |
| Others (note vi) | 21,184 | 27,990 |
| | 599,083 | 612,600 |
| | 4,164,524 | 3,873,761 |

## 18A.TRADE AND OTHER RECEIVABLES (Continued)

Notes:

(i) The Group's accrued revenue on tariff subsidy are receivables from the state grid company. Generally, the trade receivables are due within 30 days from the date of billing, except for collection of the accrued revenue on tariff subsidy, which is subject to settlement by state grid company upon finalisation of the allocation of funds by relevant government authorities to the state grid company. As the collection of accrued revenue on tariff subsidy is expected in the normal operating cycle, which may be more than 1 year, they are classified as current assets.

In the opinion of the directors of the Company, the revenue recognition of tariff adjustment is proper based on their judgement and taking into account the opinion from the Group's PRC legal advisor, that the Group's operating solar power plant has qualified for registration in the Catalogue, and has met all the relevant requirements and conditions for the registration in the Catalogue. The directors of the Company are confident that the Group's operating solar power plant is able to be registered in the Catalogue in due course and the accrued revenue on tariff subsidy is fully recoverable upon the allocation of funds from the PRC government.

(ii) The amount was non-trade in nature, unsecured, interest-free and repayable on demand. The management of the Group expects these balances would be received within twelve months after the end of the reporting period.

(iii) As at 30 June 2019, the amount includes consideration receivable of RMB5,000,000 reclassified from other non-current assets, according to the arrangement. The amount was non-trade in nature, unsecured, interest-free and repayable within one year.

(iv) As at 30 June 2019, the balance represents the amount due from those subsidiaries that were disposed of in previous year, which was non-trade in nature, unsecured, interest-free, and repayable within one year.

(v) Amount represented the receivable balance in respect of the incentive provided by and confirmed with the local government of Nanchang City, Jiangxi Province, PRC as to support the business development of LED industry in the PRC. During the six months ended 30 June 2019, RMB79,053,000 (six months ended 30 June 2018: RMB62,153,000) was received.

(vi) The amount includes interest income arising from advances to third parties, other tax recoverable, custom deposits and advances to staff for operational purpose.

(vii) The amount represented deposits placed by the Group in the security deposits account opened in the independent financial institution, which was one of the corporate bondholders of one subsidiary of the Group. Pursuant to the maturity notice dated on 15 June 2018, an offsetting right has been granted by the Group to the independent financial institution, allowing it to offset the security deposits against the Group's outstanding corporate bond payable upon the maturity of the corporate bond. As set out in note 29, during the current interim period, the Group and the bondholder have entered into a supplementary agreement to extend the due dates of the remaining outstanding amounts of corporate bond payable to 25 April 2020.

## 18A. TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade receivables and accrued revenue of tariff subsidy net of allowance for doubtful debts presented based on the goods delivery and electricity transmitted dates, which approximated the respective revenue recognition date:

| | **30/06/2019 RMB'000 (Unaudited)** | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| 0 to 30 days | **1,002,998** | 871,041 |
| 31 to 60 days | **258,186** | 414,498 |
| 61 to 90 days | **157,591** | 159,149 |
| 91 to 180 days | **291,158** | 366,203 |
| Over 180 days | **1,855,508** | 1,450,270 |
| | **3,565,441** | 3,261,161 |

The Group normally requests prepayments from customers before delivery of goods and allows credit period up to 180 days to certain trade customers on a case by case basis.

The Group's trade receivables and accrued revenue on tariff subsidy from the sales of electricity are mainly receivables from the state grid companies. Generally, the trade receivables are due within 30 days from the date of billing, except for collection of the accrued revenue on tariff subsidy, representing 41% to 90% in 2019 (six months ended 30 June 2018: 41% to 84%) of total electricity sales, which is subject to settlement by state grid companies upon finalisation of the allocation of funds by relevant government authorities to the state grid companies.

Pursuant to New Tariff Notice, a set of standardised procedures for the settlement of the tariff subsidy has come into force since 2013 and approvals for the registration in the Catalogue on a project-by-project basis are required before the allocation of funds to the state grid companies, which then would make settlement to the Group.

The following is an aged analysis of trade receivables (which with a defined credit policy), net of allowance for doubtful debts, presented based on goods delivery and electricity transmitted dates, which approximated the respective revenue recognition date.

| | **30/06/2019 RMB'000 (Unaudited)** | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| 0 to 30 days | **902,044** | 802,853 |
| 31 to 60 days | **146,791** | 336,838 |
| 61 to 90 days | **59,102** | 57,919 |
| 91 to 180 days | **53,079** | 66,607 |
| Over 180 days | **262,266** | 370,143 |
| | **1,423,282** | 1,634,360 |

## 18A.TRADE AND OTHER RECEIVABLES (Continued)

No interest is charged on the Group's trade receivables. The Group did not hold any collateral over these balances. Before accepting any new customers, the Group assesses the potential customers' credit quality and defines credit limits by customer.

## 18B.CONTRACT ASSETS

| | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Non-current asset — sales of renewable energy (note a) | **259,370** | 206,781 |
| Current assets — installation services (note b) | **9,716** | 38,462 |
| Less: allowance for credit losses | **(168)** | (168) |
| | **268,918** | 245,075 |

| | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Analysed for reporting purpose as: | | |
| Non-current assets | **259,370** | 206,781 |
| Current assets | **9,548** | 38,294 |
| | **268,918** | 245,075 |

Notes:

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Contract assets, that are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on expected settlement dates.

a. Sales of renewable energy

The contract assets relate to the Group's right to consideration for electricity sold to the local state grid in PRC. The contract assets are transferred to trade receivables when the solar power plants complete the registration to the Catalogue. The Group considers the settlement terms contain significant financing component and accordingly the amount of consideration is adjusted for the effects of the time value of money taking into consideration the credit characteristics of the relevant counterparties.

b. Installation services of PV systems

The Group's Installation services of PV systems include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group classified the related contract assets as current because the Group expects to realise them in its normal operating cycle.

## 19. RECEIVABLES AT FVTOCI

Receivables at FVTOCI comprise of:

| | 30/06/2019<br>RMB'000<br>(Unaudited) | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|---|
| Bills receivables aged 6 months based on the issue dates of bill receivables | 175,764 | 244,100 |

The balance represents bills receivables held by the Group and is measured at FVTOCI, since the bills receivables are held within the business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

## 20. AMOUNT DUE FROM A JOINT VENTURE

The amount due from a joint venture were trade related, and the credit period granted by the Group to the joint venture was 120–180 (2018: 90–180) days. Balances as at 30 June 2019 were all aged within 120 (2018: 90) days based on the invoice date and the balance as at 31 December 2018 was subsequently fully settled during the six-month period ended 30 June 2019.

## 21. PREPAYMENTS TO SUPPLIERS

From time to time, the Group makes prepayments to suppliers for purchase of raw materials. The management of the Group expects the amount of prepayments would be utilised within the next twelve months after the end of the reporting period.

## 22. RESTRICTED BANK DEPOSITS

As at 30 June 2019, included HKD124,275,000 (equivalent to RMB109,325,000) (31 December 2018: HKD251,800,000 (equivalent to RMB220,627,000)) was the restricted bank deposits arising from the borrowing advanced from Sino Alliance Capital Ltd. ("Sino Alliance") as set out in note 37(a) in the annual report of 2016. The balance was restricted as it was kept in a designated bank account of which withdrawal would require approval from Sino Alliance.

As at 30 June 2019, the remaining balance of restricted bank deposits of RMB1,821,914,000 (31 December 2018: RMB1,819,005,000) represent deposits placed in banks for arranging banking facilities granted to the Group or for the Group's issuance of short-term bills payables, accordingly, the balances are classified as current asset.

## 23. TRADE AND OTHER PAYABLES

| | 30/06/2019<br>RMB'000<br>(Unaudited) | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|---|
| Trade payables | **2,078,633** | 1,968,798 |
| Bills payables | **1,952,070** | 1,565,825 |
| Payables for acquisition of property, plant and equipment | **197,585** | 203,329 |
| Payables for EPC of solar power plants (note i) | **1,473,186** | 1,595,956 |
| Other tax payables | **42,868** | 48,540 |
| Amounts due to independent third parties (note ii) | **114,022** | 186,152 |
| Tendering deposits received | **67,663** | 57,024 |
| Accrued expenses (note iv) | **787,980** | 657,665 |
| Accrued payroll and welfare | **81,758** | 109,283 |
| Consideration payable for acquisition of subsidiaries (note iii) | **15,729** | 25,729 |
| Penalty interest and termination fee (note v) | **70,806** | 69,377 |
| Others | **45,261** | 19,580 |
| | **6,927,561** | 6,507,258 |

Notes:

(i) Amount represented payables incurred for EPC of solar power plants. The amounts would be repayable within 12 months after the end of the reporting period and such amounts were therefore classified as current liabilities at the end of the reporting period.

(ii) Except for the balance of RMB37,000,000 (2018: RMB106,000,000) carried at fixed interest rates ranging from 4.35% to 6% (2018: 4.35%) per annum, the amount is non-trade in nature, unsecured, interest-free and repayable on demand.

(iii) The amounts mainly resulted from the Group's acquisition of subsidiaries with solar power plants currently under development in the prior years, which were unsecured, interest-free and repayable on demand or upon completion of the development of solar power plants.

(iv) Included in the balance of accrued expense as at 30 June 2019, interest expense on convertible bonds of HKD18,740,000 (equivalent to RMB16,486,000) was provided for the Second CB (as defined in note 28(b)) and is fully repaid during the current interim period. As set out in note 28(b), as at 30 June 2019, the Second CB arrived at its par value as the early redemption option gives the holder the right to require the Company to redeem up to 100% of the aggregate amount of the Second CB during the period from the date after the fifth anniversary of the date of issue of the Second CB to the Second CB Maturity Date. As a result, since then the relevant interest expense was calculated used fixed interest rate on 8% per annum with interest to be paid annually.

(v) On 1 September 2014, an independent third party, lodged a litigation against Wuxi Suntech. On 20 July 2015, court order for the first instance was made by the Jiangsu High People's Court that Wuxi Suntech is obliged to return the vendor payment of RMB206,000,000 and the estimated penalty interest and termination fee. On 17 April 2018, the final appeal was released by the National High People's Court that Wuxi Suntech was obliged to return the vendor payment of RMB206,000,000 and the accumulated penalty interest and termination fee totalling RMB69,377,000, including the additional provision on legal claims of RMB8,148,000 made during the year ended 31 December 2018. Wuxi Suntech returned the vendor payment of RMB100,000,000 during the year ended 31 December 2018 and the remaining of RMB106,000,000 was accounted for amounts due to independent third parties and included in other payables as at 31 December 2018. As at 31 December 2018, the provision of RMB69,377,000 in respect of penalties and interests on the principal amount was reclassified to other payables.

During the current interim period, Wuxi Suntech returned the vendor payment of RMB70,000,000 and the remaining of RMB36,000,000 was still accounted for amounts due to independent third parties and included in other payables as at 30 June 2019. Additional interest of RMB1,429,000 was made in accordance with the outstanding principal amount during the current interim period.

## 23. TRADE AND OTHER PAYABLES (Continued)

The following is an analysis of the trade payables by age, presented based on the invoice date at the end of the reporting period:

| | 30/06/2019<br>RMB'000<br>(Unaudited) | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|---|
| Age | | |
| 0 to 30 days | **766,025** | 905,185 |
| 31 to 60 days | **401,421** | 433,801 |
| 61 to 90 days | **245,971** | 164,589 |
| 91 to 180 days | **333,140** | 181,423 |
| Over 180 days | **332,076** | 283,800 |
| | **2,078,633** | 1,968,798 |

The following is an analysis of the bills payable by age, presented based on the issue date at the end of the reporting period:

| | 30/06/2019<br>RMB'000<br>(Unaudited) | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|---|
| Age | | |
| 0 to 30 days | **316,491** | 452,418 |
| 31 to 60 days | **329,294** | 314,961 |
| 61 to 90 days | **434,239** | 345,054 |
| 91 to 180 days | **872,046** | 453,392 |
| | **1,952,070** | 1,565,825 |

## 24. OBLIGATIONS UNDER FINANCE LEASES

| | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|
| Current liabilities | 38,943 |
| Non-current liabilities | 27,909 |
| | 66,852 |

## 24. OBLIGATIONS UNDER FINANCE LEASES (Continued)

It is the Group's policy to lease certain of its buildings and machineries under finance leases. As at 31 December 2018, the original lease term is 12 years and the corresponding interest rate is 9.15% per annum. Upon the initial application of IFRS 16, the balance of obligation under finance leases was reclassified to lease liabilities since 1 January 2019.

As at 31 December 2018, the Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 25. PROVISIONS

| | **Provision on legal claims (note 23(v))** RMB'000 | **Warranty provision (note a)** RMB'000 | **Financial guarantee contracts (note b)** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2018 (audited) | 61,229 | 682,970 | 307,571 | 1,051,770 |
| ECL recognised | — | — | 14,050 | 14,050 |
| Provision for the period | 4,481 | 29,939 | 15,638 | 50,058 |
| Reclassified to other payable | (65,710) | — | — | (65,710) |
| Utilisation of provision | — | (6,903) | (20,070) | (26,973) |
| Exchange adjustments | — | 741 | (162) | 579 |
| At 30 June 2018 (unaudited) | — | 706,747 | 317,027 | 1,023,774 |
| Reversal of ECL | — | — | (49,510) | (49,510) |
| Provision for the period | 3,667 | 38,264 | 597 | 42,528 |
| Reclassified to other payables | (3,667) | — | — | (3,667) |
| Utilisation of provision | — | (3,665) | (3,414) | (7,079) |
| Exchange adjustments | — | 1,302 | 12,141 | 13,443 |
| At 31 December 2018 (audited) | — | 742,648 | 276,841 | 1,019,489 |
| ECL recognised | — | — | 4,071 | 4,071 |
| Reversal of ECL | — | — | (105,331) | (105,331) |
| Provision for the period | — | 31,809 | 8,253 | 40,062 |
| Utilisation of provision | — | (12,221) | — | (12,221) |
| Exchange adjustments | — | 1,255 | (973) | 282 |
| At 30 June 2019 (unaudited) | — | 763,491 | 182,861 | 946,352 |

## 25. PROVISIONS (Continued)

Notes:

(a) The Wuxi Suntech Group's standard PV modules (excluding the standard PV modules produced by Suntech Power Japan Corporation ("Suntech Japan"), were typically sold with a five-year warranty in terms of replacement and ten years in terms of defects in materials and workmanship. The Wuxi Suntech Group's standard PV modules also contain a 5, 12, 18 and 25-year standard warranty against declines of more than 5.0%, 10.0%, 15.0% and 20.0% of initial power generation capacity, respectively. Suntech Japan's standard PV modules sold in Japan are typically sold with a 10-year warranty in terms of replacement and repairing service for defects in materials and workmanship and a 25-year warranty against declines of more than 10.0% of initial peak power.

The warranty periods of Suntech Japan's building integrated photovoltaic ("BIPV") products vary depending on the nature and specification of each BIPV product. Additionally, a few of the customers have requested post-sales obligations. These obligations primarily consisted of (i) guaranteeing minimum system output for a certain period of time, normally less than five years, which requires Wuxi Suntech to compensate the customer for losses if the system output is lower than the minimum requirement; and (ii) providing certain post-sales system quality warranty in terms of replacement and repairing service for a certain period of time, normally less than five years. The Wuxi Suntech Group accrues warranty costs when recognising revenue and recognises such costs as a component of cost of sales. Warranty costs primarily consist of replacement costs for parts and materials and labor costs for maintenance personnel. Based on its best estimates of both future costs and the probability of incurring warranty claims, the Wuxi Suntech Group accrues for product warranties at approximately 1% of solar module sales and BIPV products. The Wuxi Suntech Group derives its estimates from a number of factors, including (1) an analysis of actual historical costs incurred in connection with its warranty claims, (2) an assessment of competitors' accrual and claim history, (3) changes in the market price of products required to be incurred to provide the warranty service, (i.e. the PV products) and (4) results from academic research, including industry-standard accelerated testing, and other assumptions that Wuxi Suntech believes to be reasonable under the circumstances.

The Wuxi Suntech Group's warranty provision is classified as current liabilities.

(b) Prior to 1 January 2019, the amounts represented:

1) Financial guarantee contracts with aggregate amounts of RMB42,754,000 provided by the Wuxi Suntech Group to a former related party and an independent third party. During the year ended 31 December 2018, amounting to RMB34,630,000 in relation to the financial guarantee contracts provided by Wuxi Suntech Group to its former related parities is revered due to the termination of borrowing contracts. The outstanding borrowing has been fully settled by its former related parties;

2) Financial guarantee contracts of RMB620,000 provided by Shunfeng Photovoltaic Investment (China) Co., Ltd ("Shunfeng Investment") to third parties. During the year ended 31 December 2018, additional ECL of RMB14,050,000 is recognised in relation to the financial guarantee contracts provided by Shunfeng Investment to third parties due to the increase in credit risk followed by a reversal of RMB5,471,000 is recognised as certain outstanding borrowing has been settled by the third party; and

3) Financial guarantee contracts with aggregate amounts of USD40,434,000(equivalent to RMB264,197,000) provided by the Group and one of its subsidiary for Suniva. In light of loss incurred, Sunvia declared bankruptcy as at the year ended 31 December 2017. The Company made full provision on the financial guarantee in respect of Suniva's additional bank borrowing and the outstanding accumulated accrued interest expenses amounting to USD35,882,000 (equivalent to RMB234,456,000) and accounts payable amounting to USD4,552,000 (equivalent to RMB29,741,000), respectively. During the year ended 31 December 2018, the Group made further provision of USD2,454,000 (equivalent to RMB16,235,000) relating to the additional outstanding interest expense that the Group is obliged to settle for Suniva followed by a reversal of USD962,000 (equivalent to RMB6,364,000) is recognised as certain outstanding borrowings has been settled by Suniva. Furthermore, in respect of accounts payables, USD3,653,000 (equivalent to RMB23,484,000) has been repaid by the Group as utilisation followed by a reversal of USD461,000 (equivalent to RMB3,045,000) is recognised as certain accounts payables has been settled by Sunvia.

During the six month ended 30 June 2019, additional ECL of RMB4,071,000 is recognised in relation to a financial guarantee contract provided by Shunfeng Investment to a third party due to the increase in credit risk, while a reversal of RMB4,771,000 is recognised as relevant outstanding borrowing has been fully settled by the third party.

During the six month ended 30 June 2019, the Group made further provision of USD1,219,000 (equivalent to RMB8,253,000) relating to the additional outstanding interest expense that the Group is obliged to settle for Suniva followed by a reversal of USD14,851,000 (equivalent to RMB100,560,000) is recognised as certain outstanding borrowings has been settled by Suniva.

## 26. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB561,130,000 (six months ended 30 June 2018: RMB464,881,000) which carried interest ranging from 0.53% to 6.3% (2018: 0.53% to 6.53%) per annum, and made repayments in bank borrowings amounting to RMB595,232,000 (six months ended 30 June 2018: RMB414,372,000).

In addition, on 30 June 2018, HKD201,019,000 (equivalent to RMB169,480,000) including the related accumulated interest of HKD11,329,000 (equivalent to RMB9,551,000) was reclassified to other borrowings subject to the supplementary agreement signed with True Bold Global Limited ("True Bold"), which was secured, carried a fixed interest of 10% per annum and repayable prior to 27 November 2019.

During the current interim period, in respect of bank borrowings with carrying amount of RMB1,061,991,000 (31 December 2018: RMB1,091,595,000) as at 30 June 2019, the Group breached certain of the terms of the bank borrowings, which are primarily related to the debt-equity ratio of the Group. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the borrowings with the relevant banker. As at 30 June 2019, those negotiations had not been concluded. Since the lender has not yet agreed to waive its right to demand immediate payment as at the end of the reporting period, the respective borrowings have been classified as current liabilities, accordingly. RMB2,295,776,000 (31 December 2018: RMB2,288,444,000) of the total bank borrowings will be repayable within twelve months after the end of the reporting period while the remaining RMB2,227,212,000 (31 December 2018: RMB2,259,496,000) will be repayable after twelve months of the reporting period till year 2038.

During the current interim period, the Group obtained other borrowing from independent third parties amounting to RMB150,304,000 (six months ended 30 June 2018: RMB142,581,000), which carried effective interest ranging from 5.88% to 15% (2018: 5.22% to 15%) per annum. The Group made repayments in other borrowings amounting to RMB234,199,000 (six months ended 30 June 2018: RMB241,062,000) during the period. RMB4,119,830,000 (31 December 2018: RMB3,768,042,000) of the total other borrowings will be repayable within twelve months after the end of the reporting period. The remaining balances of RMB2,826,048,000 (31 December 2018: RMB2,751,363,000) will be repayable after twelve months of the reporting period till year 2033.

As at 30 June 2019, included in the balance of short term other borrowing, HKD564,250,000 (equivalent to RMB496,800,000) is reclassified from the convertible bond during the current interim period. As set out in note 28, the Company has entered into subscription agreement with the Bondholders A (defined in note 28) upon the maturity date of the Fourth CB and the Bondholders A agree to repay the outstanding principal before 20 December 2019, which is unsecured and unguaranteed and carried interest rate of 4% per annum.

Out of the other short-term bank and other borrowings (excluding the Outstanding Loans from Sino Alliance and CMBC-HK) with a carrying amount of RMB3,352 million as at 30 June 2019, RMB535 million of which has been subsequently matured, among which in respect of a borrowing from an independent financial institution of a principal balance of RMB490 million due on 16 August 2019, the Group received a writ of lawsuit from the independent financial institution requesting the Group to repay the outstanding loan principal and related interest of RMB66.1 million, totalling RMB556.1 million immediately.

The proceeds from the above borrowings were used to finance the acquisition of property, plant and equipment, capital expenditure on solar power plants and to fund working capital for general operation.

## 27. DERIVATIVE FINANCIAL LIABILITIES

| | 30/06/2019<br>RMB'000<br>(Unaudited) | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|---|
| Warrants liabilities arising from acquisition of Lattice Power Group | **6,078** | 3,336 |

### Warrants liabilities arising from acquisition of Lattice Power Group

In connection with the acquisition of Lattice Power Group by the Group, the Company and certain existing shareholders of Lattice Power Corporation entered into a warrants subscription agreement pursuant to which Lattice Power Group agreed to issue, and the Company and certain existing shareholders of Lattice Power Corporation agreed to subscribe for the Series E Warrants convertible into 84,149,220 and 21,980,142 shares of Lattice Power Corporation at a nominal consideration of US$0.001 per share respectively, exercisable at the discretion of the Company and certain existing shareholders of Lattice Power Corporation.

As at 30 June 2019, the exercise price for the Series E Warrants shall be HKD41.90 (equivalent to RMB36.86) (2018: RMB36.8) per share, subject to adjustment in the event of changes in the number of shares of Lattice Power Corporation by reason of share dividends, splits, recapitalisations, reclassifications, combinations or exchanges of shares, separations, reorganisations or liquidations. The Series E Warrants shall be exercisable, in whole or in part, during the term from 6 August 2015 to 5 August 2025 and was therefore classified as current liabilities, accordingly.

Series E Warrants are financial liabilities classified and designated as at fair value through profit or loss ("FVTPL") on initial recognition. The fair values of the Series E Warrants were calculated using the Binomial model. The inputs into the model on 30 June 2019 and 31 December 2018 were as follows:

| **Valuation date** | 30/06/2019<br>(Unaudited) | 31/12/2018<br>(Audited) |
|---|---|---|
| Applicable share value (RMB) | **19.33** | 19.30 |
| Exercise price (RMB) | **36.86** | 36.80 |
| Expected volatility | **49.60%** | 49.70% |
| Expected life | **6.1 years** | 6.6 years |
| Risk-free rate | **3.19%** | 3.8% |
| Expected dividend yield | **0.00%** | 0.00% |

The applicable share value was estimated based on the acquisition share price of Lattice Power Corporation.

Expected volatility was determined by using the average annualised historical stock price volatilities of comparable companies as of the valuation date.

For the period ended 30 June 2019, loss on changes in fair value of RMB2,742,000 in respect of these warrant liabilities was debited to "other gain and losses and other expenses" in profit or loss for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

## 28. CONVERTIBLE BONDS

### (a) First CB (as defined below)

On 28 February 2013, the Company issued zero-coupon convertible bonds at par to Peace Link Services Limited ("Peace Link"), with principal amount of HKD449,400,000 (equivalent to RMB356,660,000) ("First CB"). The First CB was designated as FVTPL upon initial recognition on 28 February 2013, which was subsequently measured at fair value with changes in fair value recognised in profit or loss till the date of modification of terms on 19 September 2013. Please refer to the annual report of year 2018 for details.

The movements of the components of First CB during the current interim period are set out below:

| | **Liability component at amortised cost** | **Convertible bonds equity reserve** | **Total** |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Carrying amount at 1 January 2018 (audited) | 83,600 | 1,351,428 | 1,435,028 |
| Effective interest expense charged for the period | 7,946 | — | 7,946 |
| At 30 June 2018 (unaudited) | 91,546 | 1,351,428 | 1,442,974 |
| Effective interest expense charged for the period | 6,435 | — | 6,435 |
| Convertible bonds converted during the period | (47,805) | (674,300) | (722,105) |
| At 31 December 2018 (audited) | 50,176 | 677,128 | 727,304 |
| Effective interest expense charged for the period | 4,762 | — | 4,762 |
| At 30 June 2019 (unaudited) | 54,938 | 677,128 | 732,066 |

As at 30 June 2019, RMB35,666,000 (31 December 2018: RMB35,666,000) of the First CB was classified as current liability as the early redemption option gives the holder the right to require the Company to redeem 10% of the First CB on demand.

## 28. CONVERTIBLE BONDS (Continued)

### (b) Second CB (as defined below)

On 19 August 2013, the Company issued convertible bonds at par to Peace Link with principal amount of HKD930,500,000 (equivalent to RMB738,492,000 as calculated using pre-determined fixed rate of exchange of RMB1.00 to HKD1.26) ("Second CB"). Please refer to the annual report of year 2018 for details.

The movements of the components of the Second CB during the current interim period are set out below:

| | **Liability component at amortised cost** RMB'000 | **Convertible bonds equity reserve** RMB'000 | **Total** RMB'000 |
|---|---|---|---|
| Carrying amount at 1 January 2018 (audited) | 366,131 | 118,469 | 484,600 |
| Effective interest expense charged for the period | 31,214 | — | 31,214 |
| Coupon interest paid during the period | (33,821) | — | (33,821) |
| At 30 June 2018 (unaudited) | 363,524 | 118,469 | 481,993 |
| Effective interest expense charged for the period | 8,301 | — | 8,301 |
| At 31 December 2018 (audited) and 30 June 2019 (unaudited) | 371,825 | 118,469 | 490,294 |

As at 30 June 2019, RMB1,710,000 (2018: RMB1,710,000) of the Second CB was classified as current liability as the early redemption option gives the holder the right to require the Company to redeem during the period from the date after the fifth anniversary of the date of issue of the Second CB to the Second CB Maturity Date.

Meanwhile, as at 30 June 2019, the Second CB of RMB370,115,000 (2018: RMB370,115,000) was classified as non-current liability as the Group has obtained intention letter from Peace Link, one of the convertible bondholders of the Second CB, which expressed its consent not to exercise the right to early redemption for a period of 12 months from the date of 30 June 2019.

## 28. CONVERTIBLE BONDS (Continued)

### (c) Third CB (as defined below)

On 16 April 2014, the Company issued zero-coupon convertible bonds at par to Peace Link and other independent third parties with aggregate principal amount of HKD3,580,000,000 (equivalent to RMB2,841,270,000 as calculated using pre-determined fixed rate of exchange of RMB1.00 to HKD1.26) ("Third CB"). Please refer to the annual report of 2018 for details.

The movements of the components of the Third CB during the current interim period are set out below:

| | **Liability component at amortised cost** | **Convertible bonds equity reserve** | **Total** |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Carrying amount at 1 January 2018 (audited) | 505,067 | 904,971 | 1,410,038 |
| Effective interest expense charged for the period | 50,788 | — | 50,788 |
| At 30 June 2018 (unaudited) | 555,855 | 904,971 | 1,460,826 |
| Effective interest expense charged for the period | 56,868 | — | 56,868 |
| At 31 December 2018 (audited) | 612,723 | 904,971 | 1,517,694 |
| Effective interest expense charged for the period | 61,613 | — | 61,613 |
| At 30 June 2019 (unaudited) | 674,336 | 904,971 | 1,579,307 |

Note: Subsequently on 1 September 2014, each of the Third CB holders issued a commitment confirmation letter to the Company individually and confirmed that they would not exercise the early redemption right but retain the share conversion right till the Third CB Maturity Date. A deed of undertaking had also been subsequently drawn up and entered into by each of the Third CB holders confirming that all of them hereby irrevocably undertook to the Company that they would comply with the terms of the commitment confirmation letter, with effect from 1 September 2014.

Upon receipt of the commitment confirmation letter and the deed of undertaking from each of the Third CB holders on 1 September 2014, the directors of the Company considered that the expected future cash flows of the Third CB had been changed and the original estimate of the amortisation period on the basis of the earliest date on which the entity can be required to pay (i.e., for a shorter period of 1 year and 5 years for the 20% and the remaining 80% of the aggregate amount of the Third CB, respectively) was no longer appropriate, and revised the estimate of the amortisation period till Third CB Maturity Date (i.e., for a period of 10 years) accordingly.

The liability component of the Third CB was therefore re-measured on 1 September 2014 by discounting the revised estimated cash flows at the Third CB's original effective interest rate, and resulted in a change in carrying amount of the liability component of the Third CB by RMB992,024,000, which required the adjustment to be recognised in the profit or loss for the year ended 31 December 2014.

## 28. CONVERTIBLE BONDS (Continued)

### (d) Fourth CB (as defined below)

On 16 June 2014, the Company issued convertible bonds at par to independent third parties with aggregate principal amount of HKD2,137,230,000 (equivalent to RMB1,696,214,000 as calculated using pre-determined fixed rate of exchange of RMB1.00 to HKD1.26) ("Fourth CB"). Please refer to the annual report of 2018 for details.

The movements of the components of the Fourth CB during the current interim period are set out below:

| | Liability component at amortised cost RMB'000 | Convertible bonds equity reserve RMB'000 | Total RMB'000 |
|---|---|---|---|
| Carrying amount at 1 January 2018 (audited) | 556,243 | 329,922 | 886,165 |
| Effective interest expense charged for the period | 55,329 | – | 55,329 |
| Coupon interest paid during the period | (13,786) | – | (13,786) |
| At 30 June 2018 (unaudited) | 597,786 | 329,922 | 927,708 |
| Effective interest expense charged for the period | 60,496 | – | 60,496 |
| Coupon interest paid during the period | (13,786) | – | (13,786) |
| At 31 December 2018 (audited) | 644,496 | 329,922 | 974,418 |
| Effective interest expense charged for the period | 58,575 | – | 58,575 |
| Coupon interest paid during the period | (13,786) | – | (13,786) |
| Settlement arrangement of principal and coupon interest payable upon maturity date (as detailed below) | (644,047) | (329,922) | (973,969) |
| Unpaid and overdue of the Fourth CB as at 30 June 2019, which has been subsequently fully settled (unaudited) | 45,238 | – | 45,238 |

During the period ended 30 June 2019, the outstanding principal sum of HKD868,500,000 (equivalent to RMB689,285,000) with 21 bondholders (who are independent third parties of, and not connected with the Company) of the Fourth CB, together with the unpaid interest of HKD17,370,000 (equivalent to RMB13,786,000), totalling HKD885,870,000 (equivalent to RMB703,071,000) was matured on 15 June 2019 ("Maturity Date"). The ways of settlement arrangement are set out as follows:

## 28. CONVERTIBLE BONDS (Continued)

### (d) Fourth CB (as defined below) (Continued)

(a) The Company has fully paid the entire outstanding interest payable of HKD17,370,000 (equivalent to RMB15,294,000) to all bondholders on Maturity Date;

(b) In respect of outstanding principal balance of HKD828,500,000 (equivalent to RMB657,540,000), the Company entered into loan agreements and settlement agreements with 19 bondholders (the "Bondholders A") on 15 June 2019 for the extension of aggregated unpaid principal of totaling HKD564,250,000 (equivalent to RMB496,800,000) with an annual interest rate of 4.0% to 20 December 2019, and all the rights under the original terms and conditions in relation to the Fourth CB and any interests payable to Bondholders A will be waived by the Company. Upon the settlement agreements, the Company has repaid Bondholders A with principal amount of HKD217,250,000 (equivalent to RMB191,280,000) and obtained oral consent from the corresponding bondholder that the Company will repay the reminder principle of HKD47,000,000 (equivalent to RMB37,302,000) prior to 15 July 2019, which has been subsequently settled up to date of this report;

(c) In respect of outstanding principal balance of HKD40,000,000 (equivalent to RMB31,745,000), the Company agreed to repay the outstanding Fourth CB in full to the remaining 2 bondholders (the "Bondholders B") upon Maturity Date and has repaid in full to one of the Bondholders B with principal amount of HKD30,000,000 (equivalent to RMB26,414,000). The Company has obtained oral consent from the other bondholder B to agree the repayment of the outstanding principal balance of HKD10,000,000 (equivalent to RMB7,936,000) prior to 4 July 2019, which has been subsequently settled up to date of this report.

## 28. CONVERTIBLE BONDS (Continued)

### (d) Fourth CB (as defined below) (Continued)

The settlement arrangement of the Fourth CB during the current interim period are set out below:

| | Principal | | Coupon interest payable | | Total | |
|---|---|---|---|---|---|---|
| | HKD'000 (Original currency) | RMB'000 (RMB equivalent) | HKD'000 (Original currency) | RMB'000 (RMB equivalent) | HKD'000 (Original currency) | RMB'000 (RMB equivalent) |
| Total amount outstanding on Maturity Date | 868,500 | 689,285 | 17,370 | 13,786 | 885,870 | 703,071 |
| Bondholders A | 828,500 | 657,540 | 16,570 | 13,151 | 845,070 | 670,691 |
| Bondholders B | 40,000 | 31,745 | 800 | 635 | 40,800 | 32,380 |
| Less: reclassify to other borrowings | (564,250) | (496,800) | — | — | (564,250) | (496,800) |
| Bondholders A | (564,250) | (496,800) | — | — | (564,250) | (496,800) |
| Bondholders B | — | — | — | — | — | — |
| Less: amount paid to bondholders | (247,250) | (217,694) | (17,370) | (15,294) | (264,620) | (232,988) |
| Bondholders A | (217,250) | (191,280) | (16,570) | (14,590) | (233,820) | (205,870) |
| Bondholders B | (30,000) | (26,414) | (800) | (704) | (30,800) | (27,118) |
| Exchange realignment | — | 70,447 | — | 1,508 | — | 71,955 |
| Unpaid and overdue of the Fourth CB as at 30 June 2019 | 57,000 | 45,238 | — | — | 57,000 | 45,238 |
| Bondholders A | 47,000 | 37,302 | — | — | 47,000 | 37,302 |
| Bondholders B | 10,000 | 7,936 | — | — | 10,000 | 7,936 |

Analysed for reporting purpose for all the liability component of the convertible bonds issued by the Company at the end of the reporting period as:

| | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Within one year | **82,614** | 681,872 |
| In more than one year, but not exceeding two years | **370,115** | 370,115 |
| In more than two years but not more than five years | **693,608** | 14,510 |
| In more than five years | **—** | 612,723 |
| Total non-current liabilities | **1,063,723** | 997,348 |
| | **1,146,337** | 1,679,220 |

## 29. BONDS PAYABLES

Analysed for reporting purpose:

| | 30/06/2019<br>RMB'000<br>(Unaudited) | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|---|
| Current liabilities | **822,100** | 830,471 |

On 10 November 2015, Shunfeng Investment, a subsidiary of the Group, issued a 3-year corporate bond at par to certain independent third parties in the principal amount of RMB550,000,000. The corporate bond is unsecured but guaranteed by the Company, carried fixed interest of 7.8% per annum, and with the maturity date on 10 November 2018.

On 10 November 2018, the outstanding principal sum of RMB550,000,000 of the 3-year corporate bond, together with the unpaid interest of RMB42,900,000, totalling RMB592,900,000 was matured, and the Group has repaid all interest of RMB42,900,000 to the bondholders. In addition, the Group has entered into a supplementary agreement with the bondholders, to extend the maturity date of the corporate bond to 9 November 2019, carried fixed interest rate of 7.8% per annum. Such non-substantial modification of the corporate bond had resulted in a gain of RMB4,102,000 credited to finance costs during the year ended 31 December 2018.

In addition, on 22 June 2016, Shunfeng Investment issued a 2-year corporate bond at par to certain independent third parties in the principal amount of RMB450,000,000 and to Wuxi Suntech Power Co., Ltd, another subsidiary of the Group, in the principal amount of RMB50,000,000. The corporate bond is unsecured but guaranteed by the Company, carried fixed interest of 7.7% per annum, and with the maturity date on 22 June 2018. During the year ended 31 December 2017, principal amount of RMB20,000,000 of the corporate bond held by Wuxi Suntech Power Co., Ltd was transferred at par value to an independent financial institution.

On 22 June 2018, the outstanding principal sum of RMB500,000,000 of the 2-year corporate bond, together with the unpaid interest of RMB38,500,000, totalling RMB538,500,000 was matured. The Group had repaid an aggregate settlement of RMB194,500,000 (including the principal sum of RMB156,000,000 and interest of RMB38,500,000).Then the Group had entered into a supplementary agreement with the bondholder during the year ended 31 December 2018 and had agreed with the bondholder by the following ways of settlement:

– the repayment date of RMB60,000,000 of the principal was extended to 22 September 2018;

– the repayment date of RMB284,000,000 of the principal was extended to 22 March 2019;

## 29. BONDS PAYABLES (Continued)

During the year ended 31 December 2018, the first instalment of RMB60,000,000 was fully settled subsequent to the extension. During the current interim period, the second instalment of RMB8,537,000 was partially settled. The Group and the bondholder have entered into another supplementary agreement dated 25 April 2019 to further extend the due dates to 25 April 2020, The balance carried interest rate of 7.7% per annum, and was secured by a security deposit as at 30 June 2019, detailed in note 18A(vii).

As a result of the extension of maturity date relating to the corporate bond, a gain of RMB758,000 is recognised as non-substantial modification of the corporate bond and credited to finance costs in the current interim period.

The proceeds from the bonds payable issued was used to finance the acquisition of property, plant and equipment, capital expenditure on solar power plants, and to fund working capital for general operation.

## 30. SHARE CAPITAL

| | Number of shares | Amount<br>HKD |
|---|---|---|
| **Authorised** | | |
| At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019<br>— Ordinary shares of HKD0.01 each | 10,000,000,000 | 100,000,000 |

| | Number of shares | Amount<br>HKD |
|---|---|---|
| **Issued and fully paid** | | |
| At 1 January 2018 (audited) and 30 June 2018 (unaudited) | 4,314,151,191 | 43,141,512 |
| Issue of shares upon conversion of convertible bonds | 668,224,299 | 6,682,243 |
| At 31 December 2018 (audited) and 30 June 2019 (unaudited) | 4,982,375,490 | 49,823,755 |

| | **30/06/2019<br>RMB'000<br>(Unaudited)** | 31/12/2018<br>RMB'000<br>(Audited) |
|---|---|---|
| Presented as | **40,756** | 40,756 |

## 31. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities at amortised costs (except for the liability component of the convertible bonds as described below) recognised in the consolidated financial statements approximate their fair values.

| | 30/06/2019 | | 31/12/2018 | |
|---|---|---|---|---|
| | Carrying amount RMB'000 (Unaudited) | Fair value RMB'000 (Unaudited) | Carrying amount RMB'000 (Audited) | Fair value RMB'000 (Audited) |
| Liability component of convertible bonds | 1,146,337 | 877,886 | 1,679,220 | 1,468,755 |

The fair value of the liability component of convertible bonds as at 30 June 2019 and 31 December 2018 is under level 3 category and was determined by the directors of the Company with reference to the valuation performed by independent professional valuers. The fair value of the liability component of convertible bonds is determined by discounted cash flow using the inputs including estimated cash flows over the remaining terms of the convertible bonds and discount rate that reflected the credit risk of the Company.

### Fair value measurements recognised in the statement of financial position that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used).

| Financial assets and liabilities | Classified as | Fair value as at 30/06/2019 RMB'000 (Unaudited) | Fair value as at 31/12/2018 RMB'000 (Audited) | Fair value hierarchy | Basis of fair value measurement/ valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|---|
| Unlisted equity investments classified as financial assets at FVTPL | Financial assets at FVTPL | 3,096 | 3,096 | Level 3 | Market approach the value is based upon what investors are paying for similar assets or securities in the market place | Market multiples | The higher the market multiples, the higher the fair value |
| Receivables at FVTOCI | Financial assets at FVTOCI | 175,764 | 244,100 | Level 2 | Income approach – in this approach, the discounted cash flow method was used to capture the present value of the cash flows to be derived from the receivables | Discount rate | The higher the discount rate, the lower the fair value |
| Warrants liabilities | Derivative financial liabilities | (6,078) | (3,336) | Level 3 | Binomial model | Volatility | Note |

## 31. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

### Fair value measurements recognised in the statement of financial position that are measured at fair value on a recurring basis (Continued)

Note: An increase in the volatility used in isolation would result in an increase in the fair value measurement of the warrants liabilities, and vice versa. A 10% increase or decrease in the volatility holding all other variables constant would increase or decrease the carrying amount of the warrants liabilities by RMB2,348,000 (2018: RMB1,249,000) and RMB2,048,000 (2018: RMB1,352,000) respectively.

The following table represents the changes in Level 3 financial assets and financial liabilities during the six months ended 30 June 2019.

| | **Unlisted managed investment fund classified as available-for-sale investment receivables at FVTOCI** | **Unlisted equity investment classified as financial assets at FVTPL** | **Unlisted managed investment fund classified as FVTPL** | **Warrants Liabilities arising from previous acquisition of Lattice Power Group** | **Total** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Assets (liabilities) at 31 December 2017 (audited) | 111,337 | N/A | N/A | (3,336) | 108,001 |
| From available-for-sale to financial assets at FVTPL | (111,337) | 3,096 | 111,337 | – | 3,096 |
| Assets (liabilities) at 1 January 2018 (restated) | – | 3,096 | 111,337 | (3,336) | 111,097 |
| Reclassified to other receivables | – | – | (111,337) | – | (111,337) |
| Assets (liabilities) at 31 December 2018 (audited) | – | 3,096 | – | (3,336) | (240) |
| Loss on change in fair value of derivative financial liabilities (note 6(iii)) | – | – | – | (2,742) | (2,742) |
| Assets (liabilities) at 30 June 2019 (unaudited) | – | 3,096 | – | (6,078) | (2,982) |

## 32. DISPOSAL OF SUBSIDIARIES

During the period ended 30 June 2018, the Group disposed of all of its equity interests in 6 subsidiaries in Japan, which mainly holds 6 completed solar power plants to independent third parties for a total cash consideration of JPY1,441,000,000 (equivalent to RMB84,999,000). The net assets of the subsidiaries at the date of disposal were as follows:

Analysis of assets and liabilities over which control was lost:

| | 2018<br>RMB'000<br>(audited) |
|---|---|
| Solar power plants | 167,330 |
| Other non-current assets | 5,758 |
| Trade and other receivables | 589 |
| Bank balances and cash | 23,697 |
| Trade and other payables | (1,047) |
| Tax liabilities | (592) |
| Bank and other borrowings | (134,507) |
| Deferred tax liabilities | (7,815) |
| Net assets disposed of | 53,413 |
| **Gain on disposal of subsidiaries:** | |
| Cash consideration received | 84,999 |
| Less: net assets disposed of | (53,413) |
| Gain on disposal | 31,586 |
| **Net cash inflow arising on disposal:** | |
| Cash consideration | 84,999 |
| Less: bank balances and cash disposed of | (23,697) |
| | 61,302 |

Note:

**In respect disposal of subsidiaries in previous years**

In relation to the disposal of subsidiaries in 2016, the aggregate consideration receivables of RMB38,768,000 included in other receivables had not yet been settled as at 30 June 2019, of which the additional consideration receivables of RMB5,000,000 which was reclassified from other non-current assets to other receivables during the current interim period pursuant to the payment schedule designated in the disposal agreement.

The amounts due to the Group by the disposed subsidiaries were non-trade in nature, unsecured, interest-free and payable on demand.

In relation to the disposal of subsidiaries in 2017, the remaining outstanding consideration receivables amounting to RMB8,707,000 had been fully settled in the current interim period.

## 33. CAPITAL COMMITMENTS

At the end of the reporting period, the Group was committed to the following capital expenditure:

| | **30/06/2019 RMB'000 (Unaudited)** | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment and EPC of solar power plants | | |
| — contracted for but not provided in the condensed consolidated financial statements | **283,194** | 372,528 |

The Group's share of the capital commitments made jointly with the other investors relating to its associate and joint ventures, but not recognised at the end of the reporting date is as follows:

| | **30/06/2019 RMB'000 (Unaudited)** | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Commitments to contribute investments in an associate | **24,300** | 24,300 |
| Commitments to contribute investments in joint ventures | **—** | 24,137 |
| | **24,300** | 48,437 |

## 34. RELATED PARTY DISCLOSURES

### (a) Related party transactions

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had also entered into the following related party transactions during the six months ended 2019 and 2018.

| Name of related parties | Relationship | Nature of transactions | Six months ended 30/06/2019 RMB'000 (Unaudited) | Six months ended 30/06/2018 RMB'000 (Unaudited) |
|---|---|---|---|---|
| meteocontrol Electric Power | note (i) | Solar power plant operation and maintenance services charges | 49,404 | 52,575 |
| Suntech South Africa | note (ii) | Sales of solar products | 281,939 | – |
| Tiancheng International Auctioneer Limited ("Tiancheng International") ("天成國際拍賣有限公司") | note (iii) | Rental expense | – | 1,522 |
| | | Interest expense on lease liabilities | 143 | – |
| Changzhou Shunfeng Suntech Photovoltaic Systems Integration Co., Ltd. ("Shunfeng Suntech") ("常州順風尚德光電系統集成有限公司") | note (iv) | Sales of solar products | – | 2,951 |
| Shunfeng New Energy | note (v) | Sales of solar products | 2,492 | 5,652 |
| | | Purchase of solar products | 117,170 | 1,874 |
| | | Rental income | 2,969 | – |

Notes:

(i) The management considers meteocontrol Electric Power is a related party as it is accounted for as an associate of the Group as at 30 June 2019. This company was established by the Group and one of its senior management during the year ended 31 December 2016.

(ii) The management considers Suntech South Africa is a related party as it is accounted for as a joint venture of the Group. This entity was established by the Group and an independent third party during the year ended 31 December 2014.

(iii) The management considers Tiancheng International is a related party as it is 100% owned by Ms. Zheng Yan, who is the wife of Mr. Lu Bin (an executive Director) and the sister of Mr. Cheng Kin Ming (a substantial shareholder of the Company).

(iv) The management considers Shunfeng Suntech is a related party as it is accounted for as an associate of the Group. This entity was established by the Group and other three independent third parties during the year ended 31 December 2017.

(v) The management considers Shunfeng New Energy is a related party as it is accounted for as a joint venture of the Group. This entity was established by the Group and the other independent third party during the year ended 31 December 2018.

## 34. RELATED PARTY DISCLOSURES (Continued)

### (b) Related party balances

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following significant outstanding balances with related parties as at 30 June 2019 and 31 December 2018:

| Name of related parties | Relationship | Name of balances | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|---|---|
| Tiancheng International | note 34a(iii) | Lease liabilities | 2,787 | — |

### (c) Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the current interim period was as follows:

| | Six months ended | |
|---|---|---|
| | 30/06/2019 RMB'000 (Unaudited) | 30/06/2018 RMB'000 (Unaudited) |
| Basic salaries and allowances | 3,097 | 3,583 |
| Performance — related incentive bonuses | 200 | 1,073 |
| Retirement benefits scheme contributions | 59 | 63 |
| | 3,356 | 4,719 |

The remuneration of directors and key executives is determined with reference to the performance of individuals and market trends.

## 35. CONTINGENT LIABILITIES

| | 30/06/2019 RMB'000 (Unaudited) | 31/12/2018 RMB'000 (Audited) |
|---|---|---|
| Guarantees provided to financial institutions, in respect of banking facilities to independent third parties: | | |
| Total guarantee amounts | **210,737** | 364,017 |
| Less: amount provided as financial guarantee contracts | **(182,861)** | (276,841) |
| Unprovided amount | **27,876** | 87,176 |

## 36. EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group subsequent to the end of reporting period had carried out the following significant transactions:

### The Disposal

On 30 June 2019, a circular has been announced and dispatched by the Group in relation to the disposal of 100% of the equity interests in Jiangsu Shunfeng Photovoltaic Technology Company Limited* (江蘇順風光電科技有限公司) and its subsidiaries (hereafter collectively referred to as the "Disposal Group") to Asia Pacific Resources Development Investment Limited (亞太資源開發投資有限公司) (the "Purchaser" or "AP Resources", a company wholly-owned by Mr. Cheng at an aggregate consideration of approximately RMB3,000 million, which comprises the amounts of (a) cash amount of RMB200 million; (b) an amount of RMB1,745 million which will be applied to repay certain amounts payable by the Company's wholly-owned subsidiary to the Disposal Group; and (c) the Purchaser assuming certain indebtedness of HKD1,200 million owed by the Company to Sino Alliance (collectively referred as the "Disposal").

Save for Mr. Cheng Kin Ming and his associates (including Peace Link and AP Resources), the independent shareholders have attended extraordinary general meeting dated 8 August 2019 and have approved, confirmed and ratified the Disposal. For more details, please refer to the announcements made by the Company published on 8 August 2019 and 12 August 2019, respectively.

# DEFINITIONS

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

| | |
|---|---|
| "Board" | the board of director(s) of the Company |
| "Company", "we" or "us" | Shunfeng International Clean Energy Limited |
| "Corporate Governance Code" | the Corporate Governance Code contained in Appendix 14 to the Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "Euro" | Euro, the lawful currency of the member states of European Union |
| "Group" | the Company and its subsidiaries |
| "GW" | gigawatt, which equals to one billion watt |
| "HKD" or "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "JPY" | Japanese Yen, the lawful currency of Japan |
| "LED" | light-emitting diode |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules |
| "MW" | megawatt, which equals to one million watt |
| "MWh" | megawatt hour |
| "Period" | six months ended 30 June 2019 |
| "PRC" or "China" | the People's Republic of China |
| "PV" | Photovoltaic |
| "RMB" | Renminbi, the lawful currency of the PRC |

# DEFINITIONS (CONTINUED)

| | |
|---|---|
| "S.A.G." | S.A.G. Solarstrom AG i.I. |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of the Company |
| "Shareholder(s)" | shareholder(s) of the Company |
| "United States" | the United States of America |
| "Wuxi Suntech" | Wuxi Suntech Power Co., Ltd. |