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XINYI ENERGY HOLDINGS LIMITED

信義能源控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock code: 03868)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | Change |
|--|--------------------------|---------------------|--------|
| | 2020 | 2019 | |
| | <i>HK\$ million</i> | <i>HK\$ million</i> | |
| Revenue | 853.1 | 636.4 | 34.1% |
| Profit attributable to the Company's equity holders | 437.6 | 356.1 | 22.9% |
| Earnings per Share | | | |
| – basic and diluted | 6.48 HK cents | 7.01 HK cents | -7.6% |
| Distributable Income ⁽¹⁾ | 405.0 | 339.9 | 19.2% |
| Interim dividend | 405.1 | 337.6 | 20.0% |
| Interim dividend per Share | 6.00 HK cents | 5.00 HK cents | 20.0% |

Note:

- (1) The calculation of Distribution Income is based on the dividend policy set forth in the prospectus of the Company dated 15 May 2019.

The board (the “**Board**”) of directors (the “**Directors**”) of Xinyi Energy Holdings Limited (the “**Company**” together with its subsidiaries, the “**Group**” or “**Xinyi Energy**”) announces the interim condensed consolidated results of the Group for the six months ended 30 June 2020 (“**1H2020**”), together with the comparative figures for the six months ended 30 June 2019 (“**1H2019**”), as follows:

**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

| | Note | Six months ended 30 June | |
|---|------|---|---|
| | | 2020 <i>HK\$’000</i> <i>(Unaudited)</i> | 2019 <i>HK\$’000</i> <i>(Unaudited)</i> |
| Revenue | 3 | 853,148 | 636,400 |
| Cost of sales | | <u>(233,429)</u> | <u>(159,080)</u> |
| Gross profit | | 619,719 | 477,320 |
| Other income | 3 | 5,735 | 2,099 |
| Other (losses)/gains, net | 4 | (22) | 331 |
| Administrative expenses | | <u>(18,772)</u> | <u>(27,113)</u> |
| Operating profit | 5 | 606,660 | 452,637 |
| Finance income | 6 | 18,410 | 5,223 |
| Finance costs | 6 | <u>(101,932)</u> | <u>(47,272)</u> |
| Profit before income tax | | 523,138 | 410,588 |
| Income tax expense | 7 | <u>(85,558)</u> | <u>(54,475)</u> |
| Profit for the period attributable to equity holders of the Company | | <u>437,580</u> | <u>356,113</u> |
| Basic and diluted earnings per Share (Expressed in HK cents per Share) | 8 | <u>6.48</u> | <u>7.01</u> |

The above interim condensed consolidated income statement should be read in conjunction with the accompanying notes.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Profit for the period | 437,580 | 356,113 |
| Other comprehensive (loss)/income, net of tax: | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| – <i>Currency translation differences</i> | <u>(234,008)</u> | <u>1,947</u> |
| Total comprehensive income for the period | | |
| attributable to equity holders of the Company | <u>203,572</u> | <u>358,060</u> |

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2020

| | | As at | | |
|---|---|--------------------|---------------------|------------|
| | | 30 June 2020 | 31 December 2019 | |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| Note | | <i>(Unaudited)</i> | <i>(Audited)</i> | |
| ASSETS | | | | |
| Non-current assets | | | | |
| | Property, plant and equipment | 11 | 9,212,590 | 9,495,521 |
| | Right-of-use assets | | 427,253 | 439,016 |
| | Prepayments for property, plant and equipment | 12 | 6,858 | 10,268 |
| | Deferred income tax assets | | 8,732 | 7,634 |
| | Goodwill | | 330,396 | 330,303 |
| | Total non-current assets | | 9,985,829 | 10,282,742 |
| Current assets | | | | |
| | Trade and other receivables and prepayments | 12 | 3,494,168 | 3,052,167 |
| | Amounts due from fellow subsidiaries | 16 | 767 | 267 |
| | Cash and cash equivalents | | 1,355,413 | 1,631,244 |
| | Total current assets | | 4,850,348 | 4,683,678 |
| | Total assets | | 14,836,177 | 14,966,420 |
| EQUITY | | | | |
| Capital and reserves attributable to the equity holders of the Company | | | | |
| | Share capital | 13 | 67,525 | 67,525 |
| | Other reserves | | 6,416,873 | 7,224,779 |
| | Retained earnings | | 3,339,015 | 2,901,435 |
| | Total equity | | 9,823,413 | 10,193,739 |

| | | As at | |
|--------------------------------|---|---------------------------|------------------|
| | | 30 June | 31 December |
| | | 2020 | 2019 |
| Note | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | <i>(Unaudited)</i> | <i>(Audited)</i> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| | Bank borrowings | 15 983,686 | 1,225,580 |
| | Lease liabilities | 424,970 | 426,527 |
| | Other payables | 14 29,290 | 30,446 |
| | Deferred income tax liabilities | 208,187 | 214,047 |
| | Total non-current liabilities | 1,646,133 | 1,896,600 |
| Current liabilities | | | |
| | Bank borrowings | 15 1,128,927 | 727,388 |
| | Lease liabilities | 18,642 | 15,140 |
| | Accruals and other payables | 14 390,650 | 387,622 |
| | Amount due to immediate holding company | 16 1,773,404 | 1,717,870 |
| | Current income tax liabilities | 55,008 | 28,061 |
| | Total current liabilities | 3,366,631 | 2,876,081 |
| | Total liabilities | 5,012,764 | 4,772,681 |
| | Total equity and liabilities | 14,836,177 | 14,966,420 |

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

| | Attributable to equity holders of the Company | | | |
|---|---|--------------------|--------------------|--------------------|
| | Share | | | |
| | capital | Other | Retained | Total |
| | (Note 13) | reserves | earnings | equity |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Balance at 1 January 2020 | 67,525 | 7,224,779 | 2,901,435 | 10,193,739 |
| Comprehensive income | | | | |
| Profit for the period | — | — | 437,580 | 437,580 |
| Other comprehensive income | | | | |
| Currency translation differences | — | (234,008) | — | (234,008) |
| Total comprehensive income for the period | — | (234,008) | 437,580 | 203,572 |
| Transactions with the owner of the Company | | | | |
| Employees' share option scheme | | | | |
| – value of employee service | — | 63 | — | 63 |
| 2019 final dividend (<i>Note 9</i>) | — | (573,961) | — | (573,961) |
| Balance at 30 June 2020 | <u>67,525</u> | <u>6,416,873</u> | <u>3,339,015</u> | <u>9,823,413</u> |

| | Attributable to equity holders of the Company | | | |
|---|--|--------------------|--------------------|--------------------|
| | Share | | | |
| | capital | Other | Retained | Total |
| | (Note 13) | reserves | earnings | equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Balance at 31 December 2018 | | | | |
| as originally presented | 54 | 4,247,676 | 2,157,971 | 6,405,701 |
| Changes in accounting policy | — | 1,815 | (25,806) | (23,991) |
| | <u>54</u> | <u>4,249,491</u> | <u>2,132,165</u> | <u>6,381,710</u> |
| Restated total equity at the beginning of the financial period | 54 | 4,249,491 | 2,132,165 | 6,381,710 |
| Comprehensive income | | | | |
| Profit for the period | — | — | 356,113 | 356,113 |
| Other comprehensive income | | | | |
| Currency translation differences | — | 1,947 | — | 1,947 |
| | <u>—</u> | <u>1,947</u> | <u>356,113</u> | <u>358,060</u> |
| Total comprehensive income for the period | — | 1,947 | 356,113 | 358,060 |
| Transactions with the owner of the Company | | | | |
| Issuance of ordinary shares upon | | | | |
| – initial public offerings | 18,826 | 3,633,436 | — | 3,652,262 |
| – over-allotment | 1,252 | 241,498 | — | 242,750 |
| – capitalisation issue | 47,393 | (47,393) | — | — |
| Listing expenses charged to share premium | — | (86,865) | — | (86,865) |
| 2018 final dividend (<i>Note 9</i>) | — | (315,949) | — | (315,949) |
| | <u>67,525</u> | <u>7,676,165</u> | <u>2,488,278</u> | <u>10,231,968</u> |
| Balance at 30 June 2019 | <u>67,525</u> | <u>7,676,165</u> | <u>2,488,278</u> | <u>10,231,968</u> |

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

| | | Six months ended 30 June | |
|---|------|---|---|
| | | 2020 | 2019 |
| | Note | HK\$'000 <i>(Unaudited)</i> | HK\$'000 <i>(Unaudited)</i> |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 299,941 | 285,788 |
| Interest paid | | (33,805) | (41,862) |
| Income tax paid | | (61,829) | (30,656) |
| | | <hr/> | <hr/> |
| Net cash generated from operating activities | | 204,307 | 213,270 |
| | | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Cash flows from investing activities | | | |
| Purchases of and prepayments for purchase of property, plant and equipment | | (72,836) | (66,775) |
| Payment for acquisition of subsidiary, net of cash acquired | 10 | (64) | (2,015,754) |
| Interest received | | 18,410 | 5,223 |
| | | <hr/> | <hr/> |
| Net cash used in investing activities | | (54,490) | (2,077,306) |
| | | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Cash flows from financing activities | | | |
| Proceeds from issuance of ordinary shares | | | |
| – initial public offerings | | — | 3,652,262 |
| – over-allotment | | — | 242,750 |
| Payments for professional fee in connection with the listing of the Company | | — | (69,426) |
| Proceeds from bank borrowings | | 345,000 | 353,250 |
| Repayments of bank borrowings | | (185,355) | (506,143) |
| Principal elements of lease payments | | (8,102) | (3,074) |
| Dividend paid to Company's shareholders | | (573,961) | (315,949) |
| | | <hr/> | <hr/> |
| Net cash (used in)/generated from financing activities | | (422,418) | 3,353,670 |
| | | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Net (decrease)/increase in cash and cash equivalents | | (272,601) | 1,489,634 |
| Cash and cash equivalents at beginning of the period | | 1,631,244 | 421,263 |
| Effect of foreign exchange rate changes | | (3,230) | 650 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period | | 1,355,413 | 1,911,547 |
| | | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Xinyi Energy Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) are principally engaged in the management and operations of solar farms in the People’s Republic of China (the “**PRC**”) (the “**Solar Farm Business**”).

This interim condensed consolidated financial information is presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. This interim condensed consolidated financial information was approved for issue by the Board of Directors on 3 August 2020.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Hong Kong Accounting Standards (“**HKAS**”) 34, “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This interim condensed consolidated financial information should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements. Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New standard, amendments to standards and framework adopted by the Group

The following new standard or amendments to standards are effective for accounting periods beginning on or after 1 January 2020. The adoption of which does not have a material impact on the results and financial position for the current or prior periods of the Group.

| | |
|--|--|
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material |
| HKFRS 3 (Amendments) | Definition of a Business |
| HKFRS 9, HKAS 39 and HKFRS 7 (Amendments) | Interest Rate Benchmark Reform |
| Revised Conceptual Framework | Revised Conceptual Framework for Financial Reporting |

- (b) New standards and amendments to standards issued but not yet effective for the accounting period beginning on 1 January 2020 and not early adopted by the Group

| | | Effective for accounting periods beginning on or after |
|--|---|---|
| HKFRS 16 (Amendments) | Covid-19-related Rent Concessions | 1 June 2020 |
| HKAS 1 (Amendments) | Classification of Liabilities as Current or Non-current | 1 January 2022 |
| HKAS 16 (Amendments) | Property, Plant and Equipment: Proceeds before intended use | 1 January 2022 |
| HKAS 37 (Amendments) | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 |
| HKFRS 3 (Amendments) | Reference to the Conceptual Framework | 1 January 2022 |
| Annual Improvements to HKFRS Standards 2018–2020 Cycle | | 1 January 2022 |
| HKFRS 17 | Insurance contracts | 1 January 2023 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

The Group is in the process of making an assessment on the impact of these new standards and amendments to standards and preliminary results showed that their application are not expected to have material impact on the financial performance and the financial position of the Group.

2.2 Fair value estimation

Fair value measurement by level of hierarchy is not disclosed as the Group has no financial instruments measured on such basis in the consolidated balance sheets as at 31 December 2019 and 30 June 2020. The carrying value of receivables and payables are a reasonable approximation of their fair values.

3 REVENUE, OTHER INCOME AND SEGMENT INFORMATION

Revenue and other income recognised during the periods are as follows:

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Revenue | | |
| Recognised at a point in time: | | |
| – Sales of electricity | 334,919 | 244,247 |
| – Tariff adjustment | 514,120 | 391,340 |
| Recognised over time: | | |
| – Solar farm operation and management services | 4,109 | 813 |
| | <u>853,148</u> | <u>636,400</u> |
| Other income | | |
| Government grants (<i>Note</i>) | 4,224 | 23 |
| Others | 1,511 | 2,076 |
| | <u>5,735</u> | <u>2,099</u> |

Note:

Government grants mainly represent grants received from the PRC government in subsidising the Group's general operations.

Segment information

The Group is mainly engaged in the management and operation of solar farms in the PRC. Information reported to the Group's management for the purpose of resources allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available.

No segment of assets and liabilities are presented as no discrete financial information is available.

All of the non-current assets of the Group are located in the PRC and with country of domicile being the PRC.

4 OTHER (LOSSES)/GAINS, NET

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|--------------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Foreign exchange (losses)/gains, net | <u>(22)</u> | <u>331</u> |

5 OPERATING PROFIT

Operating profit is stated after charging the following:

| | Six months ended 30 June | |
|---|--------------------------|--------------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Depreciation charge of property, plant and equipment (<i>Note 11</i>) | 196,302 | 139,560 |
| Depreciation charge of right-of-use assets | 8,833 | 6,741 |
| Employee benefit expenses (including directors' emoluments) | 16,933 | 15,661 |
| Electricity | 6,559 | 4,296 |
| Auditor's remuneration – Non-audit services | — | 499 |
| Listing expenses | — | 14,726 |
| Insurance expenses | 2,599 | 1,570 |

6 FINANCE INCOME AND FINANCE COSTS

| | Six months ended 30 June | |
|---|--------------------------|--------------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Finance income | | |
| Interest income from bank deposits | <u>18,410</u> | <u>5,223</u> |
| Finance costs | | |
| Interest on lease liabilities | 13,859 | 10,157 |
| Interest expense on bank borrowings | 32,539 | 37,115 |
| Interest expense on deferred payment of business combination purchase consideration | <u>55,534</u> | <u>—</u> |
| | <u>101,932</u> | <u>47,272</u> |

7 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---------------------|--------------------------|--------------------|
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Current income tax | 88,776 | 55,799 |
| Deferred income tax | <u>(3,218)</u> | <u>(1,324)</u> |
| | <u>85,558</u> | <u>54,475</u> |

Notes:

- (a) The Company was incorporated in the British Virgin Islands and is exempted from payment of the British Virgin Islands income tax.
- (b) No provision for Hong Kong profits tax has been made for the period as the Group did not generate any assessable profits arising in Hong Kong during the period.

- (c) Provision made for PRC corporate income tax (“CIT”) amounted to HK\$88,776,000 and HK\$55,799,000 for 1H2020 and 1H2019, respectively. The statutory income tax rate applicable to the PRC subsidiaries of the Group is 25% (2019: 25%). Pursuant to the relevant tax regulations in the PRC, the PRC subsidiaries, except for Xinyi Energy Technology (Wuhu) Limited (“Xinyi Technology (Wuhu)”), are eligible for an exemption from the PRC CIT for three years starting with the first revenue-generating year, after offsetting prior year losses, followed by a 50% reduction for three immediate subsequent years. However, the government grants, insurance claim received and interest income are subject to the CIT with the statutory income tax rate of 25%. Xinyi Technology (Wuhu) is subject to the CIT with the statutory income tax rate of 25%.

8 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the periods.

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2020 | 2019 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Profit attributable to equity holders of the Company (HK\$'000) | 437,580 | 356,113 |
| Weighted average number of ordinary shares in issue (thousands) | 6,752,478 | 5,083,597 |
| Basic earnings per share (HK cents) | <u>6.48</u> | <u>7.01</u> |

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all dilutive potential ordinary shares. In 1H2020, the Company has share option of dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company’s shares for the period) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Hence, the share options have a dilutive effect only when the average market price of ordinary shares for the period exceeds the exercise price of the share options. The computation of diluted earnings per share for 1H2020 did not assume the exercise of the Company's outstanding share options since the exercise price of the share options exceeds the average market price.

9 DIVIDENDS

| | Six months ended 30 June | |
|---|---------------------------------|----------------|
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Final dividend for 2019 of 8.5 HK cents (2018: HK\$58.27) per Share | 573,961 | 315,949 |
| Proposed interim dividend of 6.0 HK cents (2019: 5.0 HK cents) per share | <u>405,149</u> | <u>337,624</u> |

At a meeting of the Board held on 3 August 2020, the Directors resolved to declare an interim dividend of 6.0 HK cents per share for the six months ended 30 June 2020. This interim dividend, amounting to HK\$405,149,000, is based on 6,752,478,471 issued shares as at 30 June 2020 and has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2020.

10 BUSINESS COMBINATION

To build up a more diversified solar farm investment portfolio, the Group acquired Wuwei Rihao Renewable Energy Limited for its solar farm project in the PRC from an independent third party at a gross agreed purchase price of HK\$109,000 during six months ended 30 June 2020.

The table below summarised the details of the solar farm project acquired.

| | Solar power plant acquired | | | |
|---|---|-----------------|----------------------------|---------------------------------------|
| | Equity interest acquired | Location | Number of plant | Approved capacity (MW) |
| Name of the company | | | | |
| Wuwei Rihao Renewable Energy Limited | 100% | Anhui | 1 | 20 |

The above business combination is immaterial to the Group. Details of the financial information as at acquisition date is presented as follows:

| | HK\$'000 |
|---|--------------------|
| | (Unaudited) |
| Purchases consideration | |
| Fair value of cash consideration | 109 |
| | <hr/> |
| Identifiable assets acquired and liabilities assumed | |
| Property, plant and equipment <i>(Note 11)</i> | 65,167 |
| Right-of-use assets | 4,347 |
| Trade and other receivables and prepayments <i>(Note (c))</i> | 7,133 |
| Cash and cash equivalents | 45 |
| Deferred income tax assets | 74 |
| Accruals and other payables | (72,036) |
| Lease liabilities | (4,714) |
| | <hr/> |
| Total identifiable net assets | 16 |
| Goodwill <i>(Note (d))</i> | 93 |
| | <hr/> |
| | 109 |
| | <hr/> <hr/> |
| Net cash outflow arising from the acquisitions | |
| Cash consideration | 109 |
| Less: Cash and cash equivalents acquired | (45) |
| | <hr/> |
| | 64 |
| | <hr/> <hr/> |
| Net cash outflow represents | |
| Payment upon completion of acquisition <i>(Note (a))</i> | 109 |
| | <hr/> <hr/> |

Notes:

(a) Payment upon completion of acquisition

Payment represents 100% of the gross agreed purchase price of HK\$109,000.

(b) Revenue and profit contribution

The table below illustrates the revenue and the profit included in the interim condensed consolidated income statement since acquisition date contributed by the acquisition.

| | <i>HK\$'000</i> <i>(Unaudited)</i> |
|---------------------------------|---|
| Revenue | 2,847 |
| Profit contributed to the Group | <u>2,090</u> |

If the acquisition had occurred on 1 January 2020, the interim condensed consolidated income statement would show pro-forma revenue of approximately HK\$855,252,000 and pro-forma profit of HK\$439,430,000.

(c) Acquired receivables

The fair value of trade and other receivables and prepayments acquired was HK\$7,133,000 and included trade and tariff adjustment receivables with fair value as below:

| | <i>HK\$'000</i> <i>(Unaudited)</i> |
|---|---|
| Trade and tariff adjustment receivables | <u>555</u> |

The gross contractual amount of these trade receivables due in aggregate was approximately HK\$555,000.

(d) Goodwill

The Group recognised goodwill of approximately HK\$93,000 in the interim condensed consolidated balance sheet in connection with the acquisition. The goodwill from the acquisition was calculated based on the total consideration less the fair value of total identifiable net assets acquired. As a result of the acquisition, the Group benefits through the synergies expected to arise after the acquisition because of the close proximity of this project to other solar farms currently operated by the Group. The goodwill will not be deductible for tax purposes.

11 PROPERTY, PLANT AND EQUIPMENT

| | Solar farms | Buildings | Motor vehicle, furniture and fixtures, equipment and others | Total |
|---|--------------------|-----------------|---|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Period ended 30 June 2020 | | | | |
| <i>(Unaudited)</i> | | | | |
| Opening net book amount | 9,317,342 | 169,809 | 8,370 | 9,495,521 |
| Additions | 16,766 | — | 203 | 16,969 |
| Acquisition of a subsidiary <i>(Note 10)</i> | 65,167 | — | — | 65,167 |
| Write-off | — | — | (370) | (370) |
| Depreciation charge | (192,435) | (3,317) | (550) | (196,302) |
| Currency translation differences | (165,232) | (3,016) | (147) | (168,395) |
| Closing net book amount | <u>9,041,608</u> | <u>163,476</u> | <u>7,506</u> | <u>9,212,590</u> |
| At 30 June 2020 (Unaudited) | | | | |
| Cost | 10,283,538 | 187,665 | 10,263 | 10,481,466 |
| Accumulated depreciation | <u>(1,241,930)</u> | <u>(24,189)</u> | <u>(2,757)</u> | <u>(1,268,876)</u> |
| Net book amount | <u>9,041,608</u> | <u>163,476</u> | <u>7,506</u> | <u>9,212,590</u> |

12 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | As at | |
|--|--|--|
| | 30 June 2020 <i>HK\$'000</i> <i>(Unaudited)</i> | 31 December 2019 <i>HK\$'000</i> <i>(Audited)</i> |
| Trade receivables <i>(Note (a))</i> | 3,121,235 | 2,582,554 |
| Bills receivables <i>(Note (a))</i> | <u>10,287</u> | <u>9,905</u> |
| Trade and bills receivables | 3,131,522 | 2,592,459 |
| Deposits and other receivables <i>(Note (c))</i> | 13,623 | 4,937 |
| Other tax receivables <i>(Note (d))</i> | 346,677 | 453,610 |
| Prepayments for property, plant and equipment | 6,858 | 10,268 |
| Other prepayments | <u>2,346</u> | <u>1,161</u> |
| | 3,501,026 | 3,062,435 |
| Less: Non-current portion | | |
| Prepayments for property, plant and equipment | <u>(6,858)</u> | <u>(10,268)</u> |
| Current portion | <u><u>3,494,168</u></u> | <u><u>3,052,167</u></u> |

(a) **Trade and bills receivables**

Trade receivables comprise receivables from sales of electricity and tariff adjustment receivables. The category analysis of trade receivables was set out below:

| | As at | |
|---------------------------------------|-------------------------|------------------|
| | 30 June | 31 December |
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Receivables from sales of electricity | 64,553 | 60,143 |
| Tariff adjustment receivables | 3,056,682 | 2,522,411 |
| | <u>3,121,235</u> | <u>2,582,554</u> |

Receivables from sales of electricity were usually settled on a monthly basis by the state grid companies. Tariff adjustment receivables represent government subsidies on renewable energy to be received from the state grid companies in accordance with prevailing government policies.

The ageing analysis of trade receivables is as follows:

| | As at | |
|----------------------|-------------------------|------------------|
| | 30 June | 31 December |
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| 0 to 90 days | 418,278 | 308,102 |
| 91 days to 180 days | 225,590 | 402,183 |
| 181 days to 365 days | 648,018 | 572,959 |
| Over 365 days | 1,829,349 | 1,299,310 |
| | <u>3,121,235</u> | <u>2,582,554</u> |

The maturity of the bills receivables is within one year.

The carrying amounts of the Group's trade and bills receivables are denominated in RMB.

(b) Loss allowance of trade receivables

Given the track record of regular repayment of receivables from sales of electricity and the collection of tariff adjustment receivables is well supported by the government policy, all trade receivables were expected to be recoverable. For tariff adjustment receivables, they are settled in accordance with prevailing government policies and prevalent payment trends of the Ministry of Finance.

The Ministry of Finance does not set out a rigid timetable for the settlement of tariff adjustment receivables. The actual period of settlement may differ from the expected period of recovery.

(c) Deposits and other receivables

Deposits and other receivables are all expected to be recoverable and therefore no provision was made. The ageing of deposits and other receivables was within one year.

The carrying amounts of the Group's deposits and other receivables are denominated in RMB.

(d) Other tax receivables

Other tax receivables mainly represent value added tax ("VAT") recoverable, which is creditable input VAT on purchase of property, plant and equipment (including construction in progress). They will be offset against output VAT on sales of solar electricity and tariff adjustment. The balance is denominated in RMB.

(e) The carrying amounts of trade and other receivables approximate their fair values.

(f) The other classes within trade and other receivables do not contain impaired assets.

13 SHARE CAPITAL

| | Number of Ordinary shares | Ordinary shares of HK\$0.01 each <i>HK\$</i> | Total <i>HK\$'000</i> |
|-------------------------------|---------------------------------|---|--------------------------|
| Authorised: | | | |
| At 1 January and 30 June 2020 | <u>800,000,000,000</u> | <u>8,000,000,000</u> | <u>8,000,000</u> |
| Issued and fully paid: | | | |
| <i>(Unaudited)</i> | | | |
| At 1 January and 30 June 2020 | <u>6,752,478,471</u> | <u>67,524,785</u> | <u>67,525</u> |

14 ACCRUALS AND OTHER PAYABLES

| | As at | |
|---|--|--|
| | 30 June 2020 <i>HK\$'000</i> <i>(Unaudited)</i> | 31 December 2019 <i>HK\$'000</i> <i>(Audited)</i> |
| Payables for property, plant and equipment | 411,083 | 404,131 |
| Accrued listing expenses | 1,516 | 1,516 |
| Others | <u>7,341</u> | <u>12,421</u> |
| | 419,940 | 418,068 |
| Less: Non-current portion | | |
| Retention payables for property, plant and equipment | <u>(29,290)</u> | <u>(30,446)</u> |
| Current portion | <u>390,650</u> | <u>387,622</u> |

The carrying amounts of accruals and other payables approximate their fair values.

15 BANK BORROWINGS

The bank borrowings are unsecured and repayable as follows:

| | As at | |
|---------------------------|--|--|
| | 30 June 2020 <i>HK\$'000</i> <i>(Unaudited)</i> | 31 December 2019 <i>HK\$'000</i> <i>(Audited)</i> |
| Within 1 year | 1,128,927 | 727,388 |
| Between 1 and 2 years | 792,833 | 1,009,580 |
| Between 2 and 5 years | 190,853 | 216,000 |
| | <u>2,112,613</u> | <u>1,952,968</u> |
| Less: Non-current portion | <u>(983,686)</u> | <u>(1,225,580)</u> |
| Current portion | <u><u>1,128,927</u></u> | <u><u>727,388</u></u> |

As at 30 June 2020, all bank borrowings bore floating interest rates. These bank borrowings are repayable by instalments up to 2023 (2019: 2022). The carrying amounts of the Group's bank borrowings are denominated in HK\$ and approximate their fair values as at 30 June 2020, as the impact of discounting is not significant.

The effective interest rate per annum at reporting date were as follows:

| | As at | |
|-----------------|---------------------------------------|---|
| | 30 June 2020 <i>(Unaudited)</i> | 31 December 2019 <i>(Audited)</i> |
| Bank borrowings | <u><u>1.85%</u></u> | <u><u>4.15%</u></u> |

The bank borrowings were secured by corporate guarantee provided by the Company and its subsidiaries.

16 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

The directors of the Company are of the view that the following companies that had transactions or balances with the Group are related parties:

| Name of related parties | Relationship |
|--|---------------------------|
| Xinyi Solar Holdings Limited (“ Xinyi Solar ”) | Ultimate holding company |
| Xinyi Solar (Hong Kong) Limited (“ Xinyi Solar (HK) ”) | Fellow subsidiary |
| Xinyi Power (BVI) Limited (“ Xinyi Power (BVI) ”) | Immediate holding company |
| Chaohu Jindao Photovoltaic Power Generation Company Limited (“ Chaohu Jindao ”) | Fellow subsidiary |
| Taonan Runhe Risheng Photovoltaic Agricultural Development Company Limited (“ Taonan Runhe ”) | Fellow subsidiary |
| Xinyi Solar (Bozhou) Limited (“ Xinyi Solar (Bozhou) ”) | Fellow subsidiary |
| Xinyi Solar (Jinzhai) Limited (“ Xinyi Solar (Jinzhai) ”) | Fellow subsidiary |
| Xinyi Renewable Energy (Huaibei) Limited (“ Xinyi Energy (Huaibei) ”) | Fellow subsidiary |
| Guangdong Shenke Renewable Energy Limited (“ Guangdong Shenke ”) | Fellow subsidiary |
| Xinyi Solar (Wangjiang) Limited (“ Xinyi Solar (Wangjiang) ”) | Fellow subsidiary |
| Xinyi Solar (Haikou) Limited (“ Xinyi Solar (Haikou) ”) | Fellow subsidiary |
| Huainan Xinyi Renewable Energy Limited (“ Huainan Xinyi Renewable Energy ”) | Fellow subsidiary |
| Xinyi Glass Holdings Limited (“ Xinyi Glass ”) | Note (i) |
| Cheer Wise Investment Limited (“ Cheer Wise ”) | Note (ii) |
| Xinyi Energy Smart (Wuhu) Company Limited (“ Xinyi Energy Smart ”) | Note (ii) |

Notes:

- (i) A shareholder of Xinyi Solar
- (ii) Companies under control of Xinyi Glass, a major shareholder of Xinyi Solar.

(b) Related party transactions

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the periods.

| | | Six months ended | | |
|--|---------------------|-------------------------|--------------------|-----------------------|
| | | 30 June | 30 June | |
| | | 2020 | 2019 | |
| Note | | HK\$'000 | HK\$'000 | |
| | | (Unaudited) | (Unaudited) | |
| Discontinued transactions | | | | |
| Employee benefits paid by the ultimate holding company | | | | |
| | – Xinyi Solar | i | <u> —</u> | <u> 23</u> |
| Employee benefits paid by a fellow subsidiary | | | | |
| | – Xinyi Solar (HK) | ii | <u> —</u> | <u> 1,690</u> |
| One-off transaction | | | | |
| Acquisition of subsidiaries from immediate holding company | | | | |
| | – Xinyi Power (BVI) | iii | <u> —</u> | <u> 4,083,256</u> |

| | Six months ended | |
|------|-------------------------|--------------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| Note | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |

Continuing transactions

Solar farm operation and management services

| | | | |
|---|----|---------------------|------------|
| fee receivable from fellow subsidiaries | iv | | |
| – Chaohu Jindao | | 106 | 24 |
| – Taonan Runhe | | 476 | 95 |
| – Xinyi Solar (Bozhou) | | 324 | 72 |
| – Xinyi Solar (Jinzhai) | | 713 | 123 |
| – Xinyi Energy (Huaibei) | | 780 | 139 |
| – Guangdong Shenke | | 368 | 57 |
| – Xinyi Solar (Wangjiang) | | 671 | 138 |
| – Xinyi Solar (Haikou) | | 496 | 80 |
| – Huainan Xinyi Renewable Energy | | 280 | 85 |
| | | <u>4,214</u> | <u>813</u> |

Notes:

- (i) Employee benefit expenses incurred by Xinyi Solar on behalf of the Solar Farm Business represent fees of a director, which are calculated based on the estimated time spent by the director on the Solar Farm Business for the period. These employee benefit expenses were excluded from the interim condensed consolidated financial information.
- (ii) Employee benefit expenses incurred by Xinyi Solar (HK) on behalf of the Solar Farm Business include compensation for a director and certain senior management, which are calculated based on the estimated time spent by the employees on the Solar Farm Business for the period. These employee benefit expenses were excluded from the interim condensed consolidated financial information.
- (iii) The acquisition of subsidiaries was transacted at mutually agreed prices and terms. Details of the acquisition were disclosed in the Company's announcement dated 3 June 2019.
- (iv) The transactions were conducted at mutually agreed prices and terms.

(c) **Balances with related parties**

| | As at | |
|--|--------------------|--------------------|
| | 30 June | 31 December |
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Due from fellow subsidiaries: | | |
| – Chaohu Jindao | 25 | 8 |
| – Taonan Runhe | 20 | 32 |
| – Xinyi Solar (Bozhou) | 45 | 24 |
| – Xinyi Solar (Jinzhai) | 155 | 25 |
| – Xinyi Energy (Huaibei) | 122 | 15 |
| – Guangdong Shenke | 78 | 19 |
| – Xinyi Solar (Wangjiang) | 145 | 23 |
| – Xinyi Solar (Haikou) | 14 | 25 |
| – Huainan Xinyi Renewable Energy | 163 | 96 |
| | <u>767</u> | <u>267</u> |
| Due to immediate holding company: | | |
| – Xinyi Power (BVI) | <u>1,773,404</u> | <u>1,717,870</u> |

The amounts due from fellow subsidiaries are unsecured, interest free and repayable on demand. The amounts approximate their fair values and are denominated in RMB.

The amount due to immediate holding company represents present value amount of the remaining 50% consideration of the acquisition of 2019 Portfolio estimated payment at the effective interest rate of 6.38%. The amount is unsecured, non-interest bearing and payable on the 28 May 2023, or upon the receipt of the payment from the PRC Government of the tariff adjustments of the solar power plants acquired, whichever is earlier. The amount approximates its fair value and is denominated in HK\$.

(d) Leases

| | | As at | |
|--|----|-------------|-------------|
| | | 30 June | 31 December |
| | | 2020 | 2019 |
| Note | | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Audited) |
| Interest expense on lease liabilities in relation to office area recognised by the Group as a lessee to related parties: | | | |
| – Cheer Wise | i | 23 | 10 |
| – Xinyi Energy Smart | ii | 61 | 23 |
| | | <u>84</u> | <u>33</u> |

Notes:

- (i) Approximate 30 square meter (“sq.m.”) office area in Hong Kong was provided by Cheer Wise for the Group’s operations with rental mutually agreed.
- (ii) Approximate 600 sq.m. office area in Wuhu has been provided by Xinyi Energy Smart, a related company owned as to 100% by Xinyi Glass, for the Group’s occupations with rental mutually agreed.

(e) **Key management compensation**

Key management includes directors of the Company and certain senior management. The compensation paid or payable to key management for employee services is shown below:

| | Six months ended | |
|--|-------------------------|--------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Basic salaries, bonus, other allowances and benefits | 1,881 | 2,182 |
| Retirement benefits - defined contribution scheme | 9 | 9 |
| | <u>1,890</u> | <u>2,191</u> |

The compensation of certain senior management incurred by Xinyi Solar and Xinyi Solar (HK) on behalf of the Solar Farm Business is disclosed in Notes 16(b)(i) and (ii), respectively.

17 CONTINGENCIES

The Group did not have any significant contingent liabilities as at 30 June 2020 and 31 December 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

In 1H2020, an unexpected outbreak of the novel coronavirus (the “**COVID-19**”) has caused drastic fluctuations in economic and financial environment around the world. In the People’s Republic of China (the “**PRC**”), various industries suffered as a result of halt in production and operations of enterprises after the Lunar New Year in late January until April 2020. Nevertheless, as a pure solar farm owner and operator, the daily operation of the Group had not been affected by the epidemic nor the global economic downturn.

In 1H2020, due to the full performance and profit contributions from the 2019 Portfolio, the Group’s consolidated revenue increased by 34.1% to HK\$853.1 million and the profit for the period attributable to the equity holders of the Company increased by 22.9% to HK\$437.6 million. Basic earning per share were 6.48 HK cents for the 1H2020, as compared to 7.01 HK cents for the six months ended 30 June 2019 (the “**1H2019**”).

BUSINESS REVIEW

Steady growth of revenue contribution from 2019 Portfolio

The Group’s electricity generation volume grew significantly in 1H2020, primarily due to the successful acquisition of the 2019 Portfolio with an aggregated approved capacity of 540 megawatt (“**MW**”) from Xinyi Solar Holdings Limited (“**Xinyi Solar**”) in June 2019. During 1H2020, the amount of the revenue contributed by this portfolio was HK\$289.1 million, representing an increase of 350.7% as compared to 1H2019 and 34.1% of the total revenue of solar power electricity generation of the Group for 1H2020.

As all solar farm projects of the Group are located in provinces or municipality with relatively high electricity demand such as Anhui Province, Hubei Province, Fujian Province and Tianjin Municipality in the PRC, the Group has not faced any curtailment issue in electricity generation from its sole customer, The State Grid Corporation, in 1H2020 and in previous years.

Acquisition of grid-bidding solar farm project – 2020 Portfolio

For the purpose of reducing the enormous pressure on the Chinese Renewable Energy Development Fund, 2019 was the first transition year for the photovoltaic (the “**PV**”) industry of the PRC to shift from the Feed-in-Tariff (the “**FiT**”) regime to a grid-parity regime. During this transition period, subsidies, at a very low level, will be continued for a few years and eventually extinct. Grid-bidding was a new regime derived for this transition. However, due to the late release of this new policy and approval of solar farm projects under the new regime, there were relatively few newly-started utility-scale solar farm projects (under grid-parity and grid-bidding regime) completed the constructions in 2019.

To achieve proper business delineation between the Group and Xinyi Solar, the Group only acquires new solar farm projects that have achieved grid connection and have substantially completed construction. After consultations with an independent third party since late 2019, the Group successfully acquired a grid-bidding solar farm project in April 2020. The project is located in Wuwei County, Anhui Province, with an approved capacity of 20MW. The Directors believe that this solar farm project can provide better visibility in future cash flows without delays in subsidy payments. Thus, the Group will continue to give priority to the acquisition of the grid-bidding and grid-parity solar farm projects in the future.

Improvement on electricity generation

Since the early of June 2020, the monsoon season in the region along the Yangtze River, including a large part of Hubei Province, Anhui Province and Fujian Province, started earlier than normal, resulting in heavy rainfall in the region in June and July. The number of days with sunlight was reduced significantly. Nevertheless, the performance of solar farm projects of the Group continued to operate at improved efficiency levels. These improvements were due to the Group’s enhanced solar

farm project management and control systems, which have been developed by the Group over the years. Positive results were achieved in the reduction of the system breakdown rate and the electricity loss, even though the electricity generated in the region was less than that in the previous years. The average utilization rates of the Initial Portfolio and 2019 Portfolio increased 2.1% and 5.0%, respectively, during 1H2020, as compared to 1H2019.

FINANCIAL REVIEW

Revenue

For 1H2020, the Group's revenue was mainly derived from (i) solar power electricity generation; and (ii) service fee income from the provision of the solar farm operation and management services. Both revenues from solar power electricity generation and service fee income significantly increased, as compared to 1H2019.

The table below sets forth an analysis of the Group's revenue in 1H2020, as compared to 1H2019:

Revenue – By business

| | 1H2020 | | 1H2019 | | Increase | |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------|
| | <u>HK\$'million</u> | <u>% of revenue</u> | <u>HK\$'million</u> | <u>% of revenue</u> | <u>HK\$'million</u> | <u>%</u> |
| Sales of electricity | 334.9 | 39.3 | 244.3 | 38.4 | 90.6 | 37.1 |
| Tariff adjustment | 514.1 | 60.2 | 391.3 | 61.5 | 122.8 | 31.4 |
| | 849.0 | 99.5 | 635.6 | 99.9 | 213.4 | 33.6 |
| Operation and management services | 4.1 | 0.5 | 0.8 | 0.1 | 3.3 | 412.5 |
| Total | 853.1 | 100.0 | 636.4 | 100.0 | 216.7 | 34.1 |

The Group's revenue contributed by the sales of electricity and the tariff adjustment increased by 37.1% to HK\$334.9 million and 31.4% to HK\$514.1 million, respectively, as compared to the corresponding period in 2019. The increase was primarily due to the full performance and contribution of the 2019 Portfolio and operational efficiency during the 1H2020. However, this increase was partially offset by the continuous depreciation of foreign exchange rate - Renminbi (“**RMB**”) against Hong Kong Dollar (“**HK\$**”). The Group has not experienced any curtailment in the power purchased by the customers during both six months ended.

In 1H2020, the revenue generated from the Initial Portfolio slightly decreased to HK\$557.1 million, as compared to HK\$571.4 million for 1H2019. However, in reality, the revenue of Initial Portfolio denominated in RMB increased by 2.7% as compared to the revenue in RMB for 1H2019. The increase in revenue denominated in RMB was offset by the depreciation of RMB against HK\$.

In 1H2020, the Group's revenue from solar power electricity generation was contributed by the solar farms operated and managed by the Group as follows:

| Name of the solar farm projects | Location | Approved capacity (MW) |
|--|---------------------------|---------------------------------------|
| Initial Portfolio | | |
| Nanping Solar Farm..... | Fujian Province, PRC | 30 |
| Hong'an Solar Farm | Hubei Province, PRC | 100 |
| Wuwei Solar Farm One..... | Anhui Province, PRC | 100 |
| Lixin Solar Farm | Anhui Province, PRC | 140 |
| Fanchang Solar Farm..... | Anhui Province, PRC | 60 |
| Binhai Solar Farm | Tianjin Municipality, PRC | 174 |
| Shouxian Solar Farm One | Anhui Province, PRC | 100 |
| Sanshan Solar Farm | Anhui Province, PRC | 100 |
| Jinzhai Solar Farm..... | Anhui Province, PRC | 150 |
| | | 954 |
| 2019 Portfolio | | |
| Xiaochang Solar Farm One..... | Hubei Province, PRC | 130 |
| Xiaochang Solar Farm Two | Hubei Province, PRC | 30 |
| Suiping Solar Farm..... | Henan Province, PRC | 110 |
| Shouxian Solar Farm Two | Anhui Province, PRC | 200 |
| Huainan Solar Farm..... | Anhui Province, PRC | 20 |
| Wuwei Solar Farm Two | Anhui Province, PRC | 50 |
| | | 540 |
| 2020 Portfolio | | |
| Wuwei Rihao Solar Farm..... | Anhui Province, PRC | 20 |
| Total | | <u>1,514</u> |

The Group recorded HK\$4.1 million from the solar farm operation and management services rendered for 1H2020, which represented for 0.5% of the total revenue. All of the revenue generated by the solar farms operation and management services were provided to Xinyi Solar's connection-ready solar farm projects, which in accordance with Solar Farm Operation and Management Agreement. Those services provided by the Group are on commercial terms, taking into consideration factors such as price, work efficiency, and service quality, as compared to the services provided to independent third parties.

Cost of sales

The Group has continuously achieved an effective and efficient operation with lower costs through implementing the sophisticated management for the individual solar farms and nationwide centralized surveillance system in 1H2020.

Cost of sales of the Group increased by 46.7% to HK\$233.4 million in 1H2020 from HK\$159.1 million in 1H2019. The increase was mainly due to the increased depreciation charge of property, plant and equipment and right-of-use assets, staff cost, and electricity expenses following the completion of the acquisition of the 2019 Portfolio in June 2019.

Gross profit

The Group's gross profit increased by HK\$142.4 million, or 29.8%, from HK\$477.3 million in 1H2019 to HK\$619.7 million in 1H2020, which is in line with the increase in revenue. The increase was mainly due to the greater contributions from the solar power electricity generation and service fee income from the provision of the solar farm operation and management services businesses, respectively.

Overall gross profit margin of the Group decreased by 2.4% to 72.6% in 1H2020 from 75.0% in 1H2019. The decrease was primarily due to increase in (i) the repair and maintenance expenses; and (ii) depreciation charge of the solar farms projects.

Other income

In 1H2020, other income significantly increased by 173.2% to HK\$5.7 million, as compared to HK\$2.1 million in 1H2019. The increase was mainly due to the increase in the receipt of the government grant partially offset by the decrease in the amount of insurance compensation.

Other (losses)/gains, net

The Group recorded other losses, net of HK\$22,000 in 1H2020, as compared to other gains, net of HK\$0.3 million in 1H2019 due to the depreciation of the RMB against HK\$.

Administrative expenses

The Group's administrative expenses decreased by HK\$8.3 million from HK\$27.1 million in 1H2019 to HK\$18.8 million in 1H2020. The decrease was mainly due to the decrease in (i) listing expenses in 2019; and (ii) legal and professional fees, which were partially offset by the increase in (i) employees' benefit expenses; (ii) insurance expenses; and (iii) other miscellaneous expenses.

Finance income and finance costs

The finance income increased by 252.5% to HK\$18.4 million in 1H2020 due to (i) the receipt of an aggregate subsidy payments in the second half of 2019; and (ii) the bank interest income on net proceeds of the global offering in 2019.

The total finance costs of the Group amounted to HK\$101.9 million in 1H2020, as compared to HK\$47.3 million in 1H2019. The interest expenses on bank borrowings decreased from HK\$37.1 million for 1H2019 to HK\$32.5 million for 1H2020. The decrease was primarily due to the decrease in bank borrowing's effective interest rate partially offset by the slight addition in the balance of interest-bearing bank borrowings. Meanwhile, the Group also incurred the imputed interest expenses on the deferred payment of the consideration of the acquisition of the 2019 Portfolio was HK\$55.5 million for 1H2020. The interest component on lease liabilities increased by HK\$3.7 million, or 36.4% from HK\$10.2 million in 1H2019 to HK\$13.9 million in 1H2020.

Income tax expense

The Group incurred income tax expense of HK\$85.6 million for 1H2020 as compared to HK\$54.5 million for 1H2019. The increase mainly attributable to (i) the acquisition of 2019 Portfolio in June 2019; and (ii) one solar farm project under the Initial Portfolio commencing the full payment of PRC corporate income tax at the statutory rate of 25% (1H2019: Nil).

Adjusted EBITDA, Distributable Income and net profit

In 1H2020, the adjusted EBITDA was HK\$800.5 million, representing an increase of 37.8%, as compared to HK\$580.9 million for the same period ended in 2019. The adjusted EBITDA margin was increased by 2.5%, from 91.3% for 1H2019 to 93.8% for 1H2020.

The Distributable Income, pursuant to the distribution policy of the Group, was HK\$405.0 million, which represents an increase of 19.2%, as compared to HK\$339.9 million in 1H2019.

Net profit attributable to equity holders of the Group in 1H2020 was HK\$437.6 million, representing an increase of 22.9%, as compared to HK\$356.1 million in 1H2019. The slight decrease in the net profit margin to 51.3% for 1H2020 from 56.0% for 1H2019 was primarily due to (i) increased finance costs; and (ii) increased income tax expense.

FINANCE RESOURCES AND LIQUIDITY

In 1H2020, the Group's total assets amounted to HK\$14,836.2 million, representing a decrease by 0.9% and net assets amounted to HK\$9,823.4 million, decreasing by 3.6% as at 31 December 2019. Current ratio of the Group as at 30 June 2020 was 1.4, as compared to 1.6 as at 31 December 2019 as the increase in trade and other receivables was offset by the decrease in cash and cash equivalents, and the increase in (i) bank borrowings; and (ii) the amount due to immediate holding company.

The Group's net debt gearing ratio (bank borrowings minus cash and cash equivalents divided by total equity) as at 30 June 2020 was 7.7% (31 December 2019: 3.2%), representing an increase of 140.6%. The increase was mainly due to (i) the slight increase in bank borrowings; and (ii) the decrease in cash and cash equivalents.

As at 30 June 2020, the Group's financial position remained healthy, with the cash and cash equivalents balance at HK\$1,355.4 million. During 1H2020, net cash generated from operating activities was HK\$204.3 million (1H2019: HK\$213.3 million), which was primarily attributable to the profit before income tax of HK\$523.1 million and partially offset by an increase in trade and other receivables. Net cash used in investing activities amounted to HK\$54.5 million (1H2019: HK\$2,077.3 million), which was primarily attributable to the settlement of outstanding capital expenditure for solar farm projects which had previously completed construction and the acquisition of 2020 Portfolio during the period. Net cash used in financing activities amounted to HK\$422.4 million (1H2019: net cash generated from financing activities, HK\$3,357.7 million) which was primarily attributable to the new bank borrowings at HK\$345.0 million, partially offset by (i) repayments of the bank borrowings; and (ii) dividends paid to the Company's shareholders during the period.

BUSINESS OUTLOOK

In response to the exceptional circumstances caused by COVID-19 outbreak and as remedial measures, governments across the world have imposed restrictions on majority of social and economic activities. These measures include partial or complete lockdowns, day and night curfews, closure of non-essential businesses and educational institutions, and prohibition on public social gatherings. From early 2020 to the present, majority of the global population have been affected by some form of containment measures.

Being the country first impacted by the COVID-19 outbreak since December 2019, the PRC began to implement lockdown measures with strong macroeconomic impacts after the Lunar New Year in late January 2020 until April 2020. Since then, the PRC government began to lift restrictions and restart factories, thereby assisting the recovery of the manufacturing industry. Nevertheless, as social distancing measures remain in place, the recovery of the service industry is still hindered.

According to the statistics of the International Energy Agency (the “IEA”), electricity demand of the world has been significantly reduced as a result of lockdown measures, with knock-on effects on the power mix. Electricity demand has been reduced by more than 20% during the periods of full lockdown in several countries, such as the PRC, as the increase in residential demand were far outweighed by the reductions in commercial and industrial operations. For couples of weeks, the shape of electricity resembled that of a prolonged Sunday. Reduced demands have lifted the share of renewables in electricity supply since their outputs are largely unaffected by the demand. At the same time, demands fell for all other sources of electricity, such as coal and gas. During the first quarter of 2020, global use of renewable energy in all sectors and renewable electricity generation increased by around 1.5% and 3.0%, respectively, as compared to the same period in 2019.

At the same time, in accordance the data and statistics published by the National Bureau of Statistics (the “NBS”), during the first quarter of 2020, national aggregated electricity generation from all sources reduced by 6.8% while PV electricity generation increased by 19.9%, as compared to the same period in 2019.

As a result, under the COVID-19 outbreak, the Group’s PV electricity generation business performed well with the improvement on the average utilization rate (electricity generation volume increased), which was consistent with the PRC and global statistics. The performance in 1H2020 has once again proved the stability of the solar power electricity generation business.

In light of the relevant policy jointly issued in 2019 by the National Development and Reform Commission (the “NDRC”) and the National Energy Administration (“NEA”), several changes have been brought to the PRC’s existing renewable energy policies. The changes aim to develop a PV power generation market, namely, the grid-parity regime, without any subsidy portion. The Directors believe that these changes will favor the healthy development of the whole industry because of a reduction of reliance on subsidies. The Group has captured the opportunities during this new market environment by a completion of an acquisition of a grid-bidding solar farm project in 1H2020. For the purpose of strengthening the Group’s solar farm projects owned and managed, the Group targets to complete acquisitions of solar farm projects with aggregated approved capacity of 230MW from Xinyi Solar by the end of the third quarter of 2020 as well as a grid-parity solar farm project from an independent third party before the ended of 2020.

With regard to the administrative measures of the renewable energy subsidy payment, in January 2020, new policies were jointly issued by NDRC, Ministry of Finance (the “MoF”) and NEA. Under these new policies, the PRC government will no longer announce the “Renewable Energy Tariff Subsidy Catalogue” (《可再生能源補助目錄》) (the “Catalogue”). All renewable energy projects shall submit their applications to the National Renewable Energy Information Management Platform (可再生能

源信息管理平台)。The grid companies shall observe the principles set forth in the policies, determine, and regularly publish the “Renewable Energy Power Generation Project List” (《可再生能源發電項目清單》) (the “List”). Solar farm projects listed in the Catalogue (first to seventh batches) will be enlisted in the List automatically. However, due to the COVID-19 outbreak and partial or complete lockdowns during the first quarter of 2020, the application process could not be carried out according to the original timeline. The approval process was accordingly delayed and the provision of subsidies for the year was significantly affected as well.

Due to the continuation of the COVID-19 outbreak and the rapid changes in the global economic environment, it is expected that challenges to the overall PV industry in 2020 will continue or even extend into next year. As a member of this industry, the Group will continue to adhere to a prudent and proactive approach for future development and expansion plans on grid-bidding and grid-parity solar farm projects. In addition, the Group will maintain the dividend policy and follow its commitment at the time of listing, which is to distribute 100% of the Distributable Income in 2020.

CAPITAL EXPENDITURES AND COMMITMENTS

In 1H2020, the Group incurred capital expenditures of HK\$72.8 million which was mainly used in further refinement of the existing solar farm projects. As at 30 June 2020, the Group did not have other capital commitments (2019: Nil).

PLEDGE OF ASSETS

The Group did not has any pledged asset as security for bank borrowings as of 30 June 2020.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

In 1H2020, save as disclosed in this announcement, there was no material acquisition and disposal of subsidiaries.

TREASURY POLICIES AND EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Group's solar farm projects are in the PRC with most of the transactions denominated and settled in RMB. The financial performance and assets value could be affected by the exchange rate fluctuation between RMB and HK\$. The Group may use financial instruments for hedging purposes when faced material difficulties and liquidity problems resulting from currency exchange fluctuation.

All of the revenue generated from the solar farm projects are denominated in RMB and the bank borrowings are denominated in HK\$. There is a currency mismatch between bank borrowings with the source of revenue. The Directors believe that the risk of currency mismatch may be minimized by the lower bank borrowing rates of HK\$, as compared to the RMB. As at 30 June 2020, all bank borrowings were denominated in HK\$.

During 1H2020, the Group has not experienced any material difficulties and liquidity problems resulting from the fluctuations of currency exchange. However, the Group may use financial instruments for hedging purposes as and when required. In 1H2020, the Group did not use any financial instrument for hedging purpose.

EMPLOYEES AND REMUNERATION POLICY

The Group have highly valued the human resources continuously share the reciprocal benefits and shared growth with the employees. The Group consistently explore the potential and ability of the employees. On the other hand, the Group will continue to attract additional employees as and when appropriate the business development.

As at 30 June 2020, the Group had 225 full-time employees in total in Hong Kong and the PRC. Total staff costs, including Directors' emoluments was HK\$16.9 million during the six months ended 30 June 2020. The employees are remunerated based on their qualifications, job nature, performance and working experiences plus reference to the prevailing market rate. Apart from the basic remuneration and discretionary bonus, the Group also provide statutory social welfare contribution to employees in PRC and provident fund scheme to employees in Hong Kong, respectively, under the laws and regulations.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company in November 2018, 1,902,500 share options were granted to selected employees and an executive director in March 2020. The validity period of the options is from 31 March 2020 to 31 March 2024. One third of the options will vest on each of the year-end date of 2020, 2021 and 2022 if each grantee has met the conditions of vesting as stated in the letter of grant.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to declare an interim dividend of 6.0 HK cents per Share for 1H2020 (1H2019: 5.0 HK cents), totaling HK\$405.1 million (1H2019: HK\$337.6 million), to be paid to all shareholders (the “**Shareholders**”) of the Company with their names recorded on the register of members of the Company at the close of business on Thursday, 20 August 2020. The interim dividend is expected to be payable on or about Wednesday, 16 September 2020. The Company's register of members will be closed from Tuesday, 18 August 2020 to Thursday, 20 August 2020 (both days inclusive), and during such period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfers of Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's branch share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration by 4:30 p.m. on Monday, 17 August 2020.

The interim dividend is made out of the Distributable Income during the period under review. The interim dividend will be paid from the Group's internal financial resources as well as the available banking facilities in Hong Kong.

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

During 1H2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at the date of this announcement and to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Directors are not aware of any deviation from or any breach of the provisions in the Corporate Governance Code as set forth in Appendix 14 to The Rules Governing the Listing of Securities on Stock Exchange (the "**Listing Rules**") during 1H2020.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set forth in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by the Directors. Having made specific enquiries to the Directors, all Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during 1H2020.

REVIEW OF THE INTERIM RESULTS

The Company's interim results for 1H2020 have not been audited but have been reviewed by the Company's audit committee, comprising the three independent non-executive Directors, namely, Mr. LEUNG Ting Yuk (Chairman of audit committee), The Hon. IP Kwok Him, G.B.M., G.B.S., J.P. and Ms. LYU Fang.

PUBLICATION OF INTERIM REPORT

This announcement is published on the website of the Stock Exchange and the Company. The interim report of the Company for 1H2020 containing all the relevant information required by Appendix 16 to the Listing Rules and other applicable laws and regulations will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
XINYI ENERGY HOLDINGS LIMITED
Dr. LEE Yin Yee, B.B.S.
Chairman

Hong Kong, 3 August 2020

As at the date of this announcement, the Board comprises four executive Directors, namely, Tan Sri Datuk TUNG Ching Sai P.S.M, D.M.S.M, Mr. TUNG Fong Ngai, Mr. LEE Yau Ching and Ms. CHENG Shu E, one non-executive Director, namely Dr. LEE Yin Yee, B.B.S. (Chairman of the Board), and three independent non-executive Directors, namely Mr. LEUNG Ting Yuk, The Hon. IP Kwok Him, G.B.M., G.B.S., J.P. and Ms. LYU Fang.

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.xinyienergy.com.