



4 November 2021

*The Independent Board Committee and the Independent Shareholders of  
Xinte Energy Co., Ltd.*

Dear Sirs,

**REVISED ANNUAL CAPS FOR  
EXISTING CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Product Procurement Framework Agreement (TBEA), the Supplemental Coal Procurement Framework Agreement, the Supplemental Miscellaneous Services Framework Agreement (TBEA), the Supplemental Product Sales Framework Agreement, the Supplemental Miscellaneous Services Framework Agreement (Xinjiang Tebian), the Supplemental Product Procurement Framework Agreement (Xinjiang Tebian) and the Supplemental Financial Services Framework Agreement (the “**Supplemental Framework Agreements**”) together with their respective proposed revised annual caps (the “**Revised Annual Caps**”), details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company dated 4 November 2021 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless specified otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the Letter from the Board, due to the Group’s investment and construction of the Polysilicon New Construction Projects and the construction of wind power and PV projects in 2021, the Group’s had an increased demand for the procurement of products and miscellaneous services from TBEA Group and Xinjiang Tebian Group. Due to the increased price (including transportation fee) of coal procured from the TBEA Group, and the significantly increased market price of silicon metal, the Group’s transaction amount of coal procurement and product sales between the Group and the TBEA Group increased. Due to the significant growth in the Group’s

revenue and the increase in the monetary capital, the Group's demand for the Deposit Services provided by TBEA Finance also increased. As such, it is anticipated that certain annual caps for the years ending 31 December 2021, 2022 and 2023 under the Existing Framework Agreements would not be sufficient for the expected transaction amount during the corresponding period. The Board has decided to revise the corresponding annual caps, and entered into the Supplemental Framework Agreements on 13 October 2021. Except for revising the annual caps, all other terms of the Existing Framework Agreements remain unchanged.

As at the Latest Practicable Date, TBEA is directly interested in approximately 66.52% of the total issued share capital of the Company. Thus, TBEA is a Controlling Shareholder and a Connected Person of the Company and the transactions between the Group and TBEA Group constitutes Connected Transactions of the Company. As at the Latest Practicable Date, TBEA directly holds 80% of the equity interests in TBEA Finance. Therefore, TBEA Finance, being a subsidiary of TBEA, is a Connected Person of the Company, and the transactions between the Group and TBEA Finance constitutes Connected Transactions of the Company.

As at the Latest Practicable Date, Xinjiang Tebian is a 30%-controlled company held by Mr. Zhang Xin, a Director. Therefore, Xinjiang Tebian is a Connected Person of the Company, and the transactions between the Group and Xinjiang Tebian Group constitutes Connected Transactions of the Company.

Pursuant to Rule 14A.54 of the Listing Rules, the Company shall re-comply with the requirements under Chapter 14A of the Listing Rules if it proposes to revise the annual caps under the Existing TBEA Framework Agreements, the Existing Financial Services Framework Agreement and the Existing Xinjiang Tebian Framework Agreements. As the Existing TBEA Framework Agreements and the Existing Xinjiang Tebian Framework Agreements are entered into between the same parties, according to Rule 14A.81 of the Listing Rules, the respective transactions contemplated under them are required to be aggregated and treated as if they were one transaction. After aggregation, since the highest applicable percentage ratios in respect of the Revised Annual Caps under each of the Supplemental TBEA Framework Agreements, the Supplemental Financial Services Framework Agreement and the Supplemental Xinjiang Tebian Framework Agreements exceed 5%, each of them is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Cui Xiang, Mr. Chen Weiping and Mr. Tam, Kwok Ming Banny (all being the independent non-executive Directors), has been established to advise the Independent Shareholders as to whether (i) the terms of the Supplemental Framework Agreements have been determined on a fair and reasonable basis and entered into on normal commercial term and in the ordinary and usual course of business of the Company and in the interest of the Company and Shareholders as a whole; and (ii) to vote in favour of the resolutions to be proposed at the EGM. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are independent pursuant to Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Framework Agreements and their Revised Annual Caps thereunder. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Within the two years prior to the Latest Practicable Date, we have acted as independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to continuing connected transactions of the Company and the subscription of domestic shares by the Controlling Shareholder, details of which are set out in the circulars of the Company dated 8 October 2020, 2 December 2020 and 11 June 2021 respectively. Apart from normal professional fees paid to us in connection with the aforesaid appointment, no arrangements exist whereby we have received any fees or benefits from the Company or any other party to the transactions during the two years prior to the Latest Practicable Date, therefore we consider such relationship would not affect our independence.

#### **BASIS OF OUR OPINION**

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations provided by the Directors and the management of the Company, for which they are solely and wholly responsible for are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so as at the date of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiries and careful consideration by the Directors and the management of the Company and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We have also assumed that the information referred to in the Circular will continue to be true, accurate and

complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the EGM, we will inform the Shareholders as soon as practicable. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company nor have we conducted any independent investigation into the business, financial conditions and affairs or the prospect of the Group or any of their associates.

The Directors have collectively and individually accepted full responsibility for all information given with regard to the Company including particulars given in compliance with the Listing Rules. The Directors have confirmed, after having made all reasonable enquiries, which to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the continuing connected transactions contemplated under the Supplemental Framework Agreements and their Revised Annual Caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken the following principal factors and reasons into consideration:

### **1. Background information of the parties to the Supplemental Framework Agreements and Revised Annual Caps**

#### *Information of the Company*

The Company is a global leader manufacturer of polysilicon as well as developer and operator of wind and PV power resources. Its main businesses include the production of polysilicon and the provision of engineering and construction contracting and operating services for PV and wind power projects. The Company is also engaged in the manufacturing of supporting equipment (mainly inverters, flexible direct current converter valve and static VAR generators), which are used for the engineering and construction contracting business of the Company or sold to independent third parties.

### ***Information of TBEA***

TBEA is a joint stock company incorporated in the PRC on 26 February 1993. As at the Latest Practicable Date, its registered capital is RMB3,786,103,952. TBEA and its close associates (excluding the Group) are mainly engaged in: (i) production and sales of transformers, inductors, wires, cables and other electrical and machinery equipment; and (ii) construction and contracting of domestic and international power transmission and transformation projects, hydro and geothermal power projects.

### ***Information of Xinjiang Tebian***

Xinjiang Tebian is a company incorporated in the PRC with limited liability on 27 January 2003. As at the Latest Practicable Date, its registered capital is RMB75,000,000. The main business of Xinjiang Tebian Group is the production and sales of accessories for electrical and mechanical products and transformer, civil construction and industrial investment. As at Latest Practicable Date, Mr. Zhang Xin holds 40.08% of Xinjiang Tebian's equity interest.

### ***Information of TBEA Finance***

TBEA Finance is a company incorporated in the PRC with limited liability on 29 November 2018, and a subsidiary of TBEA, with registered capital of RMB1,000 million as at the Latest Practicable Date. TBEA Finance is a non-bank financial institution approved by the CBIRC with various qualifications for the provision of financial services to members of corporate groups. As at the Latest Practicable Date, TBEA directly holds 80% of the equity interest in TBEA Finance and is the ultimate beneficial owner of TBEA Finance.

## **2. Reasons and benefits of entering into the Supplemental Framework Agreements and the Revised Annual Caps**

### ***Background of the Supplemental TBEA Framework Agreements and the Supplemental Xinjiang Tebian Framework Agreement***

As stated in the Letter from the Board, through seizing the opportunity of developing new energy industry worldwide, the Group has implemented the Polysilicon New Construction Projects, of which the 100,000-ton Polysilicon Project with a total investment of RMB8.8 billion will be completed and put into operation in the second half of 2022; the Group's technological transformation of the Xinjing polysilicon production line with a total investment of RMB1,265 million will be completed by the end of the first quarter of 2022. Meanwhile, with the realization of the goal of "dual carbon", it is expected that the global installed capacity of wind and PV power will increase in future, and the scale of the Group's wind and PV resources development will also

further increase. It is expected that the annual installed capacity of the wind power and PV projects will increase from 2GW to 2.5GW to 3GW in the future. In order to ensure the completion of the above projects with guaranteed quality and quantity and to rapidly realise economic benefits, it is expected that the Group will purchase more transformers, cables, switch enclosures, electrical equipment, other products, coal and miscellaneous services for 2021 to 2023 from TBEA Group and Xinjiang Tebian Group.

As stated in the Letter from the Board, TBEA's power transmission and transformation products are of high quality and occupy the leading position in the industry. Transformers, cables and other products are essential for the Group's daily production and operation. Xinjiang Tebian Group is the backbone manufacturing enterprise within the industry for producing products such as switch enclosures and other electrical equipment, the products of Xinjiang Tebian are very competitive. Switch enclosures and other electrical equipment are necessities for the ordinary production and operation of the Group.

As discussed with the management of the Company, the Group has maintained business with TBEA Group and Xinjiang Tebian Group of more than 15 years and did not have any material disputes or complaints against TBEA Group and Xinjiang Tebian Group in relation to the quality of products supplied or serviced provided by TBEA Group and Xinjiang Tebian Group. The entering into of the Supplemental TBEA Framework Agreement by the Company with TBEA and the Supplemental Xinjiang Tebian Framework Agreement by the Company with Xinjiang Tebian are in substance the extension of the established business relationship between the Company and TBEA and Xinjiang Tebian under the Existing TBEA Framework Agreements and the Existing Xinjiang Tebian Framework Agreements which will continue to benefit the Group, being the purchaser, by ensuring continuous provision of goods and services to and by the Group through leveraging on the extensive resources and well-developed technical services of TBEA Group and Xinjiang Tebian Group under the Supplemental TBEA Framework Agreements and the Supplemental Xinjiang Tebian Framework Agreements, which will continue to ensure the quality and reliability of the Group's products.

Due to the additional demand for the procurement of products and miscellaneous services in relation to the construction of the Polysilicon New Construction Projects and wind and PV power projects, the Board expected that certain existing annual caps for the years ending 31 December 2021, 2022 and 2023 for the relevant Continuing Connected Transactions under the Existing Framework Agreements will not be sufficient to meet the expected transaction amount for the years ending 31 December 2021, 2022 and 2023. According to the national 14th five-year plan issued by the government of PRC, which maps out the development blueprint and action agenda for the country in the next five years from 2021 to 2025 and, at the same time, crafts a vision for the long-range objectives through the year 2035. According to the interim report of the Company for the six months ended 30 June 2021 (the "**2021 Interim Report**"), under the guidance of

industry policies and market demand drives, the new energy industry in China achieved rapid development, with newly installed wind power capacity representing a significant year-on-year increase. The short-term supply-demand imbalance within certain segments of the PV industry chain, the price of polysilicon rose sharply, and the terminal demand for newly installed PV power generation capacity slows down but maintains a stable growth.

### ***Background of the Supplemental Financial Services Framework Agreement***

According to the 2021 Interim Report, the Group achieved revenue of RMB7,750.87 million and the profit attributable to owners of the Company of RMB1,228.16 million, representing an increase of 130.17% and 70,565.25% respectively over the corresponding period for the six months ended 30 June 2020. Particularly, the polysilicon production segment recorded revenue of RMB3,532.05 million, representing an increase of 157.36% over the corresponding period for the six months ended 30 June 2020, and achieved gross profit of RMB1,589.22 million, representing an increase of 1,288.14% over the corresponding period for the six months ended 30 June 2020. The Group achieved a sales volume of approximately 35,400 tons of polysilicon, representing an increase of approximately 36% as compared to the six months ended 30 June 2020. As discussed with the management of the Company, due to the short-term supply-demand imbalance within certain segments of the PV industry chain, the price of polysilicon rose sharply. According to the statistics of China Nonferrous Metals Industry Association Silicon Industry Branch (中國有色金屬工業協會硅業分會), the polysilicon production capacity in the PRC reached approximately 227,000 tons in the first half of 2021, representing a year-on-year increase of 10.7%. In terms of specific price, the average price of monocrystalline dense materials rises from RMB87,200/ton in January 2021 to RMB212,400/ton in June 2021, representing an increase of 143.58%.

As abovementioned, the profit attributable to owners of the Company for the six months ended 30 June 2021 has increased 70,565.25% as compare to the profit attributable to owners of the Company for the six months ended 30 June 2020. Besides, as at 30 June 2021, the cash and cash equivalents were amounted to RMB3.397 billion, represent an increase of RMB1.623 billion as compare to the year ended 31 December 2020. As advised by the management of the Company, such increase was mainly due to the Company's polysilicon sales price and volume increased during in the first half of 2021 and the Company's net cash generated from operating activities in the first half of 2021 has increased significantly. The Company is of the view that the market price of polysilicon product is expected to further increase in the second half of 2021, and based on the future development of polysilicon production and wind and PV power resource development business, the Company expects to have a substantial increase in cash during 2021-2023. As further discussed with the management of the Company, TBEA Finance will be able to offer customized proposals for centralized deposit and management of funds in line with the management needs of the Group, enabling the Group to satisfy its flexible needs of funds through timely withdrawals, and the interest rate for the Deposit Services offered by TBEA Finance to the Group will not be

less favourable than the interest rate offered by the Major Cooperate Commercial Banks to the Group for such revenue and cash increment. In light of the above, the Group considered to revise the annual cap for the Deposit Services in order to capture more interest for the Group.

Having considered that (i) the long-term business relationship with TBEA and Xinjiang Tebian contributing to a reliable and stable supply to the Group; (ii) the Supplemental Framework Agreements allow the Group to satisfy their business needs; (iii) the increasing scale of production and sales volume of the Group in the polysilicon products during the first half of 2021; (iv) the Supplemental Financial Services Framework Agreement allow the Group to improve the efficiency of capital use; (v) the Supplemental Framework Agreements do not restrict the Group to have limited selection of suppliers, customers or banks; and (vi) the other terms of the Supplemental Framework Agreements remain unchanged as the Existing Framework Agreements, we concur with the Directors' view that the entering into the Supplemental Framework Agreements are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

***Principal terms of the Supplemental Framework Agreements and the Revised Annual Caps***

***1. The Supplemental Product Procurement Framework Agreement (TBEA)***

***Annual caps and its basis of determination***

A summary of the existing annual caps under the Existing Product Procurement Framework Agreement (TBEA) and the proposed annual cap under the Supplemental Product Procurement Framework Agreement (TBEA) for the three years ending 31 December 2023 are set out in the table below:

<b>Existing annual caps</b>			<b>Proposed annual caps</b>		
<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>	<b>Year ending 31 December 2023</b>	<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>	<b>Year ending 31 December 2023</b>
<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
450,000	450,000	450,000	1,600,000	900,000	700,000

As stated in the Letter from the Board, the actual transaction amount of approximately RMB130 million recorded for the eight months ended 31 August 2021 has already utilized approximately 29% of the existing annual cap under the Existing Products Procurement Framework Agreement (TBEA) for the year ending 31 December 2021. As advised by the management of the Company, there will be some potential procurement transactions of approximately RMB1,400



million to be entered between the Group and the TBEA Group from October to December 2021 and the potential procurement transactions mainly include the products procurement for the Polysilicon New Construction Projects. We have reviewed the breakdown of such transactions.

As stated in the Letter from the Board, it is expected that the annual installed capacity of the wind power and PV projects will increase from 2GW to 2.5GW to 3GW in the future. We have reviewed the internal minutes in relation to the construction plan from the senior management of the Company and noted that the Group intend to increase their annual installed capacity of the wind power and PV projects. Taking into account that (i) increment on the annual installation for 2022 to 2023; and (ii) continuous business relationship with TBEA Group, the annual caps for the two years ending 31 December 2023 is expected to increase by 50% from RMB450 million.

As advised by the management of the Company, the increment on the annual cap is due to the Polysilicon New Construction Projects which commence construction in 2021 and expect to complete in 2022. Therefore, the annual cap for the two years ending 31 December 2022 are higher in order to facilitate the construction process of the 100,000-ton Polysilicon Projects with a total investment of RMB8.8 billion and the technological transformation of the Xinjiang polysilicon production line with a total investment of RMB1,265 million.

As discussed with the management of the Company, the estimated total amount for transformers (including ancillary equipment), wires, cables procured from TBEA Group are not more than RMB1.15 billion in 2021 and RMB230 million in 2022 for Polysilicon New Construction Projects respectively. Based on the existing progress of the construction of the Polysilicon New Construction Projects and the aggressive bidding strategy of TBEA Group in the Polysilicon New Construction Projects, TBEA Group may be able to get more tenders in the rest of the construction of the Polysilicon New Construction Projects, as such, the Group intend to revise the annual cap and prevent any potential incompliance with Listing Rules for the connected transaction.

Having taken into consideration of the above, in particular, (i) the Group's business plan on the construction of the Polysilicon New Construction Projects which is expected to be completed by second half of 2022 and the annual installed capacity of wind power and PV projects which is expected to be increased from 2022; (ii) the expected highest demand for the transformers (including ancillary equipment), wires and cables for the Polysilicon New Construction Projects; (iii) the increment on the annual installation of wind power and PV projects; and (iv) prevention of any potential incompliance with the Listing Rules for the connected transaction, we are of the view that the Revised Annual Caps and the proposed annual caps under the Supplemental Products Procurement Framework Agreement (TBEA) are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Other than above consideration, we have also conducted the below works in relation to access the historical transactions during the period for eight months ended 31 August 2021 under the Supplemental Product Procurement Framework Agreement (TBEA):

- for transformers, wires and cables, we have randomly obtained three invoices between the Group and TBEA Group for the eight months ended 31 August 2021 and three invoices between the Group and the independent third parties of similar products. We noted that the prices of the products purchased from TBEA Group were not less favourable than that of the product purchased from independent third parties;

With reference to the invitation to the Qualified Supplier for tender that was and will be adopted by the Group, given (i) the three invoices for each type of products under the Existing Product Procurement Framework Agreement (TBEA) and the three invoice from third parties as aforementioned and our observation above that pricing of the relevant transactions was equivalent or comparable to those offered to or quoted by third parties independent for the eight months ended 31 August 2021; and (ii) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2020, we consider that it is reasonably fair and the terms offered by TBEA Group had no less favourable than the terms offered by independent third parties.

2. *The Supplemental Miscellaneous Services Framework Agreement (TBEA)*

*Annual caps and its basis of determination*

A summary of the existing annual caps under the Existing Miscellaneous Services Framework Agreement (TBEA) and the proposed annual cap under the Supplemental Miscellaneous Services Framework Agreement (TBEA) for the three years ending 31 December 2023 are set out in the table below:

Existing annual caps			Proposed annual caps		
Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)	Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)
300,000	300,000	300,000	500,000	500,000	500,000

As stated in the Letter from the Board, the actual transaction amount of approximately RMB60 million recorded for the eight months ended 31 August 2021 has already utilized approximately 20% of the existing annual cap under the Existing Miscellaneous Services Framework Agreement (TBEA) for the year ending 31 December 2021. As advised by the management of the Company, there will be some potential transaction for miscellaneous services of approximately RMB400 million to be entered between the Group and the TBEA Group from October to December 2021 and the potential transaction for miscellaneous services include the miscellaneous services for the Polysilicon New Construction Projects and the planned installation of wind power and PV projects for 2021. We have reviewed the breakdown of such transactions.

As stated in the Letter from the Board, it is expected that the annual installed capacity of the wind power and PV projects will increase from 2GW to 2.5GW to 3GW in the future. We have reviewed the internal minutes in relation to the construction plan from the senior management of the Company and noted that the Group intend to increase their annual installed capacity of the wind power and PV projects. Taking into account that (i) increment on the annual installation for 2022 to 2023; and (ii) continuous business relationship with TBEA Group, the annual caps for the two years ending 31 December 2023 is expected to increase by 50% from RMB300 million.

As further advised by the management of the Company, the increment on the annual cap is due to the Polysilicon New Construction Projects which commence construction in 2021 and expect to complete in 2022. Therefore, the annual cap for the year ending 31 December 2021 are

also adjusted in order to facilitate the construction process of the 100,000-ton Polysilicon Projects with a total investment of RMB8.8 billion and the technological transformation of the Xinjiang polysilicon production line with a total investment of RMB1,265 million.

As discussed with the management of the Company, the estimated total amount for miscellaneous required from TBEA Group is not more than RMB200 million in 2021 for Polysilicon New Construction Projects. Based on the existing progress of the construction of the Polysilicon New Construction Projects and the aggressive bidding strategy of TBEA in the Polysilicon New Construction Projects, TBEA may be able to get more tenders in the rest of the construction of the Polysilicon New Construction Projects, as such, the Group intend to revise the annual cap and prevent any potential incompliance with Listing Rules for the connected transaction.

Having taken into consideration of the above, in particular, (i) the Group's business plan on the construction of the Polysilicon New Construction Projects which is expected to be completed by second half of 2022 and the annual installed capacity of wind power and PV projects which is expected to be increased from 2022; (ii) the increment on the annual installation of wind and PV projects; and (iii) prevention of any potential incompliance with the Listing Rules for the connected transaction, we are of the view that the Revised Annual Caps and the proposed annual caps under the Supplemental Miscellaneous Services Framework Agreement (TBEA) are determined based on reasonable estimation and after due consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Other than above consideration, we have also conducted the below works in relation to access the historical transactions during the period for eight months ended 31 August 2021 under the Supplemental Miscellaneous Services Framework Agreement (TBEA):

- we have randomly obtained three invoices between the Group and TBEA Group for the eight months ended 31 August 2021 and three invoices between the Group and the independent third parties of similar services. We noted that the prices of the services provided by TBEA Group were not less favourable than that of the services provided by independent third parties;

With reference to the invitation to the Qualified Supplier for tender that was and will be adopted by the Group, given (i) the three invoices for miscellaneous services under the Existing Miscellaneous Services Framework Agreement (TBEA) and the three invoices from third parties as aforementioned and our observation above that pricing of the relevant transactions was equivalent or comparable to those offered to or quoted by third parties independent for the eight months ended 31 August 2021; and (ii) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the continuing

connected transactions were not, in all material respects, in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2020, we consider that it is fair and reasonable and the terms offered by TBEA Group had no less favourable than the terms offered by independent third parties.

### 3. *The Supplemental Coal Procurement Framework Agreement*

#### *Annual caps and its basis of determination*

A summary of the existing annual caps under the Existing Coal Procurement Framework Agreement and the proposed annual cap under the Supplemental Coal Procurement Framework Agreement for the three years ending 31 December 2023 are set out in the table below:

Existing annual caps			Proposed annual caps		
Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)	Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)
450,000	480,000	520,000	500,000	600,000	750,000

As stated in the Letter from the Board, the actual transaction amount of approximately RMB239 million recorded for the eight months ended 31 August 2021 has already utilized approximately 53.1% of the existing annual cap under the Existing Coal Procurement Framework Agreement for the year ending 31 December 2021. As further advised by the management of the Company, based on their current production schedule, it is expected that the annual transaction amount for coal procurement will be around RMB480 million for the year ending 31 December 2021.

As stated in the Letter from the Board, with the impact of supply and demand imbalance in the coal market, the price of coal in China has been increasing since the second half of 2021. TBEA Group informed the Company that it will increase its coal sales price (including transportation fee), and the new price took effect from 1 October 2021. It is expected that the coal procurement price (including transportation cost) of the Company from remaining months of 2021 to 2022 will increase by 25% as compared with the first half of 2021. We have obtained and reviewed the notice from TBEA Group in relation to the increment on the coal price (the "Increment"). The Company expects that the price of coal may be further increase in the coming few years after their discussion with the representative of TBEA Group. As such, the Company set up the annual caps under the Supplemental Coal Procurement Framework Agreement with an

increment of approximately 25% with reference to the Increment for each of the two years ending 31 December 2023 in order to prevent any further fluctuation on the price of coal and supply enough coal.

Having taken into consideration of the above, in particular, (i) the current production schedule and its expected annual transaction for coal procurement for the year ending 31 December 2021; (ii) the potential fluctuation of the price of coal; and (iii) the long term business relationship with TBEA Group, we are of the view that the Revised Annual Caps under the Supplemental Coal Procurement Framework Agreement are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Other than above consideration, we have also conducted the below works in relation to access the historical transactions during the period for eight months ended 31 August 2021 under the Supplemental Coal Procurement Framework Agreement:

- we have randomly obtained three invoices between the Group and TBEA Group for the eight months ended 31 August 2021 and three invoices between the Group and the independent third parties of similar coal procurement. We noted that the prices of the coal purchased from TBEA Group were not less favourable than that of the coal purchased from independent third parties;

With reference to the invitation to the Qualified Supplier for coal that was and will be adopted by the Group, given (i) the three invoices for coal procurement under the Existing Coal Procurement Framework Agreement and the three invoice from third parties as aforementioned and our observation above that pricing of the relevant transactions was equivalent or comparable to those offered to or quoted by third parties independent for the eight months ended 31 August 2021; and (ii) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2020, we consider that it is reasonably fair and the terms offered by TBEA Group had no less favourable than the terms offered by independent third parties.

#### 4. The Supplemental Product Sales Framework Agreement

##### *Annual caps and its basis of determination*

A summary of the existing annual caps under the Existing Product Sales Framework Agreement and the proposed annual cap under the Supplemental Product Sales Framework Agreement for the three years ending 31 December 2023 are set out in the table below:

Existing annual caps			Proposed annual caps		
Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)	Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)
100,000	100,000	100,000	100,000	200,000	20,000

As stated in the Letter from the Board, the actual transaction amount of approximately RMB43 million recorded for the eight months ended 31 August 2021 has already utilized approximately 43.0% of the existing annual cap under the Existing Product Sales Framework Agreement for the year ending 31 December 2021.

As stated in the Letter from the Board, TBEA Group purchased industrial raw materials, including silicon metal, liquid alkali and others, and industrial water from the Group for its daily operation. Due to the shortage of silicon metal supply resulting from the control of energy consumption in various provinces in China, the sales price of silicon metal has increased significantly since the second half of 2021. We have reviewed the price of silicon metal stated on 中國鐵合金在線 (China Ferroally Online\*) ([www.cnfeol.com](http://www.cnfeol.com)) and noted that the price of silicon metal increased not less than approximately 400% from beginning of 2021 to October 2021. As further discussed with the management of the Company, the increment on the Revised Annual Caps under the Supplemental Product Sales Framework Agreement is mainly due to the increased price. Taking into account of the annual volume purchased by TBEA Group on silicon metal and the new price of silicon meter, the Company expects that the annual caps under the Supplemental Product Sales Framework Agreement for each of the two years ending 31 December 2023 will be increased by RMB100 million.

Having taken into consideration of the above, in particular, (i) the stable historical procurement on silicon metal by TBEA Group; (ii) the increased price of silicon metal; and (iii) the long term business relationship with TBEA Group, we are of the view that the Revised Annual

Cap under the Supplemental Product Sales Framework Agreement are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Other than above consideration, we have also conducted the below works in relation to access the historical transactions during the period for eight months ended 31 August 2021 under the Supplemental Product Sales Framework Agreement:

- for silicon metal and liquid alkali, we have randomly obtained three invoices between the Group and TBEA Group for eight months ended 31 August 2021 and three invoices between the Group and the independent third parties of similar products. We noted that the prices of the silicon metal and liquid alkali provided to TBEA Group were not less favourable than that of the silicon metal and liquid alkali provided to independent third parties;
- for industrial water, we have randomly obtained three invoices for eight months ended 31 August 2021 between the Group and TBEA Group. We also obtained and reviewed the quotation of urban tap water provided by Urumqi Water Industry Group Co., LTD. and noted that the unit price of industrial water provided by the Group to TBEA Group were not lower than Urumqi Water Industry Group Co., LTD. which is an independent third party water supplier of TBEA Group.

Given that the three invoices for products sold under the Existing Product Sales Framework Agreement and the three invoice from third parties as aforementioned and our observation above that pricing of the relevant transactions was equivalent or comparable to those offered to or quoted by third parties independent for the eight months ended 31 August 2021; and the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2020, we consider that it is reasonably fair and the terms offered by TBEA Group had no less favourable than the terms offered by independent third parties.



5. *The Supplemental Product Procurement Framework Agreement (Xinjiang Tebian)*

*Annual caps and its basis of determination*

A summary of the existing annual caps under the Existing Product Procurement Framework Agreement (Xinjiang Tebian) and the proposed annual caps under the Supplemental Products Procurement Framework Agreement (Xinjiang Tebian) are set out in the table below:

Existing annual caps			Proposed annual caps		
Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)	Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)
50,000	50,000	50,000	400,000	250,000	250,000

As stated in the Letter from the Board, the actual transaction amount of approximately RMB3 million recorded for the eight months ended 31 August 2021 has already utilized approximately 6% of the existing annual cap under the Existing Products Procurement Framework Agreement (Xinjiang Tebian) for the year ending 31 December 2021. As advised by the management of the Company, there will be some potential procurement transactions of approximately RMB390 million to be entered between the Group and the Xinjiang Tebian Group from October to December 2021 and the potential procurement transactions mainly include the products procurement for the Polysilicon New Construction Projects. We have reviewed the breakdown of such transactions.

As advised by the management of the Company, the increment on the annual cap is due to the Polysilicon New Construction Projects which commence construction in 2021 and expect to complete in 2022. Therefore, the annual cap is only revised for 2021 and 2022 in order to facilitate the construction process of the 100,000-ton Polysilicon Projects with a total investment of RMB8.8 billion and the technological transformation of the Xinjiang polysilicon production line with a total investment of RMB1,265 million.

As stated in the Letter from the Board, it is expected that the annual installed capacity of the wind power and PV projects will increase from 2GW to 2.5GW to 3GW in the future. We have reviewed the internal minutes in relation to the construction plan from the senior management of the Company and noted that the Group intended to increase their annual installed capacity of the wind power and PV projects. Taking into account that (i) increment on the annual installation for 2022 to 2023; and (ii) continuous business relationship with Xinjiang Tebian Group, the annual caps for the two years ending 31 December 2023 is expected to increase by 50% from RMB50 million.

As discussed with the management of the Company, the estimated total amount for switch enclosures, electrical equipment and other products procured from Xinjiang Tebian Group are not more than RMB250 million in 2021 and RMB30 million in 2022 due to the need for Polysilicon New Construction Projects. Based on the existing progress of the construction of the Polysilicon New Construction Projects and the aggressive bidding strategy of Xinjiang Tebian Group in the Polysilicon New Construction Projects, Xinjiang Tebian may be able to get more tenders in the rest of the construction of the Polysilicon New Construction Projects, as such, the Group intend to revise the annual cap and prevent any potential incompliance with Listing Rules for the connected transaction.

As further advised by the management of the Company, Xinjiang Tebian Group commence production for more products in 2021, such as turbine tower, based on their honor tender on turbine tower since second half of 2021, the potential procurement transaction on turbine tower for the year ending 31 December 2021 will be approximately RMB90 million. The Group expect they will continue to invite Xinjiang Tebian Group for turbine tower due to the satisfied quality.

Having taken into consideration of the above, in particular, (i) the Group's business plan on the construction of the Polysilicon New Construction Projects; (ii) the expected highest demand for the switch enclosures, electrical equipment and other products for the Polysilicon New Construction Projects; (iii) the continuous need for turbine tower; (v) expected annualized transaction on turbine tower by considering the potential transaction for year ending 31 December 2021; (vi) the increment on the annual installation of wind and PV projects; and (vii) prevention of any potential incompliance with the Listing Rules for the connected transaction, we are of the view that the Revised Annual Caps and the proposed annual caps under the Supplemental Products Procurement Framework Agreement (Xinjiang Tebian) are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Other than above consideration, we have also conducted the below works in relation to access the historical transactions during the period for eight months ended 31 August 2021 under the Supplemental Product Procurement Framework Agreement:

- for switch enclosures and electrical equipment, we have randomly obtained three invoices between the Group and Xinjiang Tebian Group for the eight months ended 31 August 2021 and three invoices between the Group and the independent third parties of similar products. We noted that the prices of the products purchased from Xinjiang Tebian Group were not less favourable than that of the product purchased from independent third parties;

With reference to the invitation to the Qualified Supplier for tender that was and will be adopted by the Group, given (i) the three invoices for each type of products under the Existing Product Procurement Framework Agreement (Xinjiang Tebian) and the three invoice from third parties as aforementioned and our observation above that pricing of the relevant transactions was equivalent or comparable to those offered to or quoted by third parties independent for the eight months ended 31 August 2021; and (ii) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2020, we consider that it is reasonably fair and the terms offered by Xinjiang Tebian Group had no less favourable than the terms offered by independent third parties.

6. *The Supplemental Miscellaneous Services Framework Agreement (Xinjiang Tebian)*

*Annual caps and its basis of determination*

A summary of the existing annual caps under the Existing Miscellaneous Services Framework Agreement (Xinjiang Tebian) and the proposed annual caps under the Supplemental Miscellaneous Services Framework Agreement (Xinjiang Tebian) are set out in the table below:

Existing annual caps			Proposed annual caps		
Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)	Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)	Year ending 31 December 2023 (RMB'000)
300,000	300,000	300,000	500,000	500,000	500,000

As stated in the Letter from the Board, the actual transaction amount of approximately RMB138 million recorded for the eight months ended 31 August 2021 has already utilized approximately 46% of the existing annual cap under the Existing Miscellaneous Services Framework Agreement (Xinjiang Tebian) for the year ending 31 December 2021. As advised by the management of the Company, there will be some potential transaction for miscellaneous services of approximately RMB400 million to be entered between the Group and the Xinjiang Tebian Group from October to December 2021 and the potential transaction for miscellaneous services include the miscellaneous services for the Polysilicon New Construction Projects and the planned installation of wind power and PV projects for 2021. We have reviewed the breakdown of such transactions.

As stated in the Letter from the Board, it is expected that the annual installed capacity of the wind power and PV projects will increase from 2GW to 2.5GW to 3GW in the future. We have reviewed the internal minutes in relation to the construction plan from the senior management of the Company and noted that the Group intended to increase their annual installed capacity of the wind power and PV projects. Taking into account that (i) increment on the annual installation for 2022 to 2023; and (ii) continuous business relationship with Xinjiang Tebian Group, the annual caps for the two years ending 31 December 2023 is expected to increase by 50% from RMB300 million.

As further advised by the management of the Company, the increment on the annual cap for the year ending 31 December 2021 is due to the Polysilicon New Construction Projects which commence construction in 2021 and expect to complete in 2022. Therefore, the annual cap for the year ending 31 December 2021 are also adjusted in order to facilitate the construction process of the 100,000-ton Polysilicon Project with a total investment of RMB8.8 billion and the technological transformation of the Xinjiang polysilicon production line with a total investment of RMB1,265 million.

Having taken into consideration of the above, in particular, (i) the Group's business plan on the construction of the Polysilicon New Construction Projects which is expected to be completed by second half of 2022 and the annual installed capacity of wind power and PV projects which is expected to be increased from 2022; (ii) the increment on the annual installation of wind and PV projects; and (iii) prevention of any potential incompliance with the Listing Rules for the connected transaction, we are of the view that the Revised Annual Caps and the proposed annual caps under the Supplemental Miscellaneous Services Framework Agreement (Xinjiang Tebian) are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Other than above consideration, we have conducted the below works in relation to access the historical transactions during the period for eight months ended 31 August 2021 under the Supplemental Miscellaneous Services Framework Agreement (Xinjiang Tebian):

- we have randomly obtained the three invoices between the Group and Xinjiang Tebian Group for the eight months ended 31 August 2021 and three invoices between the Group and the independent third parties of similar services. We noted that the prices of the services provided by Xinjiang Tebian Group were not less favourable than that of the services provided by independent third parties;

With reference to the invitation to the Qualified Supplier for tender that was and will be adopted by the Group, given (i) the three invoices for miscellaneous services under the Supplemental Miscellaneous Services Framework Agreement (Xinjiang Tebian) and the three invoice from third parties as aforementioned and our observation above that pricing of the relevant

transactions was equivalent or comparable to those offered to or quoted by third parties independent for the eight months ended 31 August 2021; and (ii) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the pricing of the connected transactions, on a sample basis, are not in accordance with the Company's pricing policies as mentioned in the annual report of the Company for the year ended 31 December 2020, we consider that it is reasonably fair and the terms offered by Xinjiang Tebian Group had no less favourable than the terms offered by independent third parties.

#### 7. *The Supplemental Financial Services Framework Agreement*

##### *Annual caps and its basis of determination*

A summary of the existing annual caps under the Existing Financial Services Framework Agreement and the proposed Revised Annual Caps under the Supplemental Financial Services Framework Agreement are set out in the table below:

<b>Existing annual caps</b>			<b>Proposed annual caps</b>		
<b>Year ending 31 December 2021 (RMB'000)</b>	<b>Year ending 31 December 2022 (RMB'000)</b>	<b>Year ending 31 December 2023 (RMB'000)</b>	<b>Year ending 31 December 2021 (RMB'000)</b>	<b>Year ending 31 December 2022 (RMB'000)</b>	<b>Year ending 31 December 2023 (RMB'000)</b>
1,000,000	1,000,000	1,000,000	3,000,000	3,000,000	3,000,000

As abovementioned in the section headed "Reasons and benefits of entering into the Supplemental Framework Agreements and the Revised Annual Caps — Background of the Supplemental Financial Services Framework Agreement", due to the average price of monocrystalline dense materials rises from RMB87,200/ton in January 2021 to RMB212,400/ton in June 2021, representing an increase of 143.58% and the sales volume of approximately 35,400 tons of polysilicon for the six months ended 30 June 2021, representing an increase of approximately 36% as compared to the six months ended 30 June 2020. The Group's revenue has increased significantly during the six months ended 30 June 2021 amounted to RMB7,750.87 million, representing an increase of 130.17% as compared to the six months ended 30 June 2020. As discussed with the management of the Company, based on the Company's development of polysilicon production and wind and PV power resource, the management of the Company is expected the Company will have a substantial increase in cash and cash equivalents in upcoming years. In order to improve the efficiency of capital use of the Group, the Company is of the view that TBEA Finance will be able to offer customized proposals for centralized deposit and management of funds in line with the management needs of the Group, enabling the Group to satisfy its flexible needs of funds through timely withdrawals, and the interest rate for the deposit services.

We have reviewed the annual report of the Company for the year ended 31 December 2020 and the 2021 Interim Report, the cash and cash equivalents were RMB2,747 million, RMB1,774 million and RMB3,397 million as at 31 December 2019, 31 December 2020 and 30 June 2021 respectively.

We have also reviewed the bank balance of the Group since 1 July 2021, the daily balance in banks of the Group were generally higher than RMB3.4 billion. The highest daily balance (including the restricted cash and term deposits and proceed from placing) in banks of the Group was approximately RMB6.8 billion and the highest daily balance (excluding the restricted cash and term deposits and proceed from placing) was approximately RMB4.3 billion (the “**Available Cash**”). As advised by the management of the Company, the Group usually maintain certain level of deposit in seven major commercial banks (the “**Major Banks**”) to maintain the Group’s relationship with the Major Banks as the Group generally obtain relatively high banking facilities from them and have business relationship with the Major Banks over 14 years. However, as the restricted cash and term deposits and proceed from placing of approximately RMB2.5 billion, representing approximately 36.8% of the highest daily balance since 1 July 2021, are already placed in the Major Banks, the Group considered to place 30% of the Available Cash to Major Banks and the rest of the Available Cash to TBEA Finance (the “**Allocation**”) in order to satisfy its flexible needs of funds through timely withdrawals and the interest rate for the Deposit Services offered by TBEA Finance to the Group will not be less favourable than the interest rate offered by the independent commercial banks to the Group.

In addition, we have also obtained and reviewed the historical daily balance in TBEA Finance from 1 August 2021 to 31 August 2021 (the “**Review Period**”), the historical daily balance in TBEA Finance within the Review Period averaged RMB884 million and with highest historical daily balance amounted to RMB996 million.

Having taken into consideration of the above, (i) the highest daily balance (including the restricted cash and term deposits and proceed from placing) in banks of the Group was approximately RMB6.8 billion and the highest daily balance (excluding the restricted cash and term deposits and proceed from placing) was approximately RMB4.3 billion; (ii) the Group intends to maintain business relationship with the Major Banks by placing certain level of deposits in the Major Banks; and (iii) the Allocation, we are of the view that the proposed annual caps under the Supplementation Financial Services Framework Agreement are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Other than above consideration, we have conducted the below works in relation to access the historical transactions during the period for eight months ended 31 August 2021 under the Supplemental Financial Services Framework Agreement:

- we have randomly obtained and reviewed the three deposit contracts/records between the Group and the TBEA Finance for the eight months ended 31 August 2021 against the three receipts of deposit placed by the Group in other commercial banks for the period for the eight months ended 31 August 2021. We noted that the interest rates offered by the TBEA Finance for the deposits placed by the Group were no less favourable than the then interest rates provided to the Group by other independent commercial banks in the PRC for deposits of similar nature and under similar terms.

Given that (i) the Group's significant increase in revenue and cash; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the Supplemental Financial Services Framework Agreement, we consider that the terms of the Deposit Services under the Existing Financial Services Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### **3. Internal control measures within the Group**

#### *Internal control for the Supplemental Framework Agreements*

As disclosed in the Letter from the Board, to ensure the Company's conformity with the above pricing policy, the Company has adopted a series of internal control measures for its daily operations. Such measures will be conducted and supervised by various units of the Company:

- the Company has adopted a transaction management system on connected transactions. Business departments of the Company are required to conduct updates of separate agreements for the Continuing Connected Transactions, and regularly report the execution status of each connected transaction to the secretary of the Board on a monthly basis. The secretary of the Board will then inform the Board of any important information thereof;
- the Audit Committee is also responsible for the data collection and monitoring of connected transactions, and for conducting evaluation on the fairness of the transaction terms and pricing terms. It will discuss with subsidiaries and business departments to review the execution status of the connected transactions and determine the annual caps. It will also report to the Board and the board of supervisors on the Group's connected transactions on a quarterly basis. If it is anticipated that there is a need to revise the annual caps, the Company will comply with the relevant requirements under Listing Rules to issue an announcement, report to the Independent Board Committee and/or seek Independent Shareholders' approval after the Board's review and approval (as the case may be);

- the Company has strengthened training in relation to the review and decision making processes and information disclosure requirements of connected transactions, further promoting awareness among the relevant business departments in the corresponding compliance requirements;
- the independent non-executive Directors have reviewed and will continue to review the non-exempt Continuing Connected Transactions to ensure such agreements are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditors of the Company will also conduct an annual review on the transaction amount and annual caps of such non-exempt Continuing Connected Transactions;
- all individual connected transactions agreements shall obtain approval from the headquarters of the Company before being entered into. Also, members of the senior management of the Company will collectively monitor the actual transaction amount of the Group's Continuing Connected Transactions;
- the Company will impose control on the actual transaction amount of Continuing Connected Transactions, and focus on controlling the individual amount of each type of Continuing Connected Transactions; and
- the secretary of the Board will collect data on Continuing Connected Transactions at the beginning of each month, and cross-check the consolidated amount of Continuing Connected Transactions in the previous month with the financial staff of the relevant Connected Person.

*Internal control for the Supplemental Financial Services Framework Agreements*

As disclosed in the Letter from the Board,

- (i) Before entering into any deposit arrangements with TBEA Finance, the Company will negotiate with TBEA Finance on an arm's length basis in respect of the deposit interest rate of the Deposit Services, and ensure that the deposit interest rate is determined (1) with reference to and is not lower than the benchmark deposit interest rate then published by PBOC for comparable deposits for the same term and in case of any change in the benchmark deposit interest rate, the interest rate payable by TBEA Finance shall be determined with reference to and not lower than such benchmark deposit interest rate; and (2) with reference to the interest rates offered by two to three other independent commercial banks in the PRC for comparable Deposit Services on



normal commercial terms, such that the deposit interest rate of the Deposit Services will not be less favourable than that published by PBOC and that offered by two to three other independent commercial banks in the PRC for comparable deposits for the same term.

- (ii) The finance department of the Company is responsible for cross-checking the interest rates when the Group has deposit needs to ensure that TBEA Finance will comply with the interest rates regulation of PBOC and comparing the interest rates and terms offered by two to three Major Cooperative Commercial Banks. Accordingly, the Company is able to ensure that the interest rates and terms for the deposits placed by the Group with TBEA Finance are on normal commercial terms or better.
- (iii) TBEA Finance will provide the finance department of the Company with the relevant information, and the finance department will independently review such information. If there is any change on the regulation of interest rates promulgated by PBOC, the finance department of the Company will communicate and discuss with TBEA Finance to ensure that TBEA Finance will correspondingly adjust the deposit interest rates in accordance with the relevant new regulation on applicable interest rates as promulgated by PBOC and in compliance with the pricing policies of the Existing Financial Services Framework Agreement.
- (iv) The independent non-executive Directors and the auditor of the Company have reviewed the Existing Financial Services Framework Agreement and will continue to review the Supplemental Financial Services Framework Agreement. The independent non-executive Directors and the auditor of the Company will also regularly monitor and listen to the Group's reports on the implementation of the financial services agreements to ensure they are made on normal commercial terms, fair and reasonable, and the implementation is in accordance with the terms of such agreements.


Any balance of the Group's funds (after deducting the Group's deposits with TBEA Finance) will be deposited into one or more commercial banks in the PRC.

## **RECOMMENDATION**

Having considered the principal factors and reasons as discussed above, we are of the view that (i) the Supplemental Framework Agreements are entered into in the ordinary and usual course of business of the Company; and (ii) the Supplemental Framework Agreements and their respective Revised Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders

as a whole. Accordingly, we advise the Independent Shareholders, and recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions in this regard.

Yours faithfully,  
For and on behalf of  
**Sorrento Capital Limited**



**Stanley Chung**  
*Managing Director*

*Note:* Mr. Stanley Chung has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2006. Mr. Chung has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

*The English translation of the Chinese name(s) in this letter, where indicated with \* is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.*