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If you have sold or transferred all your securities in China Smarter Energy Group Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED

中國智慧能源集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1004)

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF 100 MW SOLAR POWER PROJECT IN THE PRC AND NOTICE OF SGM

Financial Adviser to the Company



Capitalized terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 9 to 30 of this circular.

A notice convening the SGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 4 August 2017 at 2:30 p.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is sent to the Shareholders together with this circular. Such form of proxy is also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.cse1004.com>). Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so desire.

* For identification purposes only

30 June 2017

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings.

“2014 Acquisition”	the acquisition of Jinchang Jintai Photovoltaic Company Limited* (金昌錦泰光伏電力有限公司) by the Group as disclosed in the announcement of the Company dated 15 July 2014 and the circular of the Company dated 31 December 2014
“Accounts Receivable(s)”	the accounts receivable(s) of the Project Company
“Acquisition”	the proposed acquisition of the entire equity interests in the Target Company by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement
“Adjustment”	the adjustment of the Consideration as set out in the section headed “Consideration – Adjustment of the Consideration” in the “Letter from the Board” in this circular
“Announcement”	the announcement of the Company dated 31 March 2017 in relation to, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Associated Party(ies)”	any party who, directly or indirectly through one or more intermediaries, control, is controlled by, or is jointly controlled by the other party
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, a Sunday, a public holiday in Hong Kong or the PRC, or a day on which a tropical cyclone warning no. 8 or above is hoisted or a black rainstorm warning signal is given in Hong Kong at any time between 9:00 a.m. to 5:00 p.m.) on which banks in the PRC and Hong Kong are open for normal business
“Changfeng Hongyang”	Changfeng Hongyang New Energy Power Generation Company Limited* (長豐紅陽新能源發電有限公司), a company established under the laws of the PRC with limited liability

DEFINITIONS

“China Minsheng Investment”	China Minsheng Investment Company Limited* (中國民生投資股份有限公司), a company established under the laws of the PRC with limited liability
“China Minsheng New Energy”	China Minsheng New Energy Investment Company Limited* (中民新能投資有限公司), a company established under the laws of the PRC with limited liability
“Company”	China Smarter Energy Group Holdings Limited (中國智慧能源集團控股有限公司*), a company incorporated under the laws of Bermuda as an exempted company with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1004)
“Completion”	completion of the Sale and Purchase Agreement in accordance with the terms and conditions set out therein
“Completion Date”	the date on which Completion takes place in accordance with the section headed “The Sale and Purchase Agreement – Completion” in the “Letter from the Board” in this circular
“Condition(s)”	the condition(s) precedent to Completion, as more particularly set out in the section headed “The Sale and Purchase Agreement – Conditions” in the “Letter from the Board” in this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Acquisition under the Sale and Purchase Agreement, being RMB644,977,000 (approximately HK\$728,824,000), subject to the Adjustment
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Creaton Holdings”	Creaton Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability
“Dezhou Jiayang”	Dezhou Jiayang New Energy Company Limited* (德州佳陽新能源有限公司), a company established under the laws of the PRC with limited liability

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“Director(s)”	director(s) of the Company
“Dongying Yellow River”	Dongying Yellow River Delta Investment Fund Management Ltd.* (東營市黃河三角洲投資基金管理有限公司), a company established under the laws of the PRC with limited liability
“Electricity Supply Agreement”	the electricity supply agreement entered into between the State Grid Company and the Project Company in December 2013 in relation to the sale and purchase of the electricity generated by the Target Project
“Enlarged Group”	the Group as enlarged by the Target Group upon Completion
“Enterprise Value”	the combination of long-term debts, shareholders’ loan and shareholders’ equity (as applicable)
“Equity Interest Consideration”	the amount of RMB492,960,000 (approximately HK\$557,045,000)
“Export-Import Bank Loan”	the loan owed by the Project Company to the Export-Import Bank of China in the principal amount and interest of not more than RMB500,237,000 (approximately HK\$565,268,000) as at the Reference Date
“Export-Import Bank of China”	The Export-Import Bank of China (中國進出口銀行)
“Gaoan Jinjian”	Gaoan Jinjian Power Generation Company Limited* (高安市金建發電有限公司), a company established under the laws of the PRC with limited liability
“Grid Connection Agreement”	the grid connection agreement entered into between the State Grid Company and the Project Company on 18 December 2013 in relation to on-grid connection of the Target Project
“GW”	gigawatt, which equals to 1,000,000,000 watts
“Gorgeous Investment”	Gorgeous Investment Group Holding Co., Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of Shanghai Gorgeous

DEFINITIONS

“Group”	the Company and its subsidiaries
“Guarantee Fee Agreement”	the agreement for provision of guarantee dated 31 March 2017 entered into between Shanghai Gorgeous and the Project Company, pursuant to which the Project Company agreed to provide a one-off fee of approximately RMB9,992,000 (approximately HK\$11,291,000) to Shanghai Gorgeous for the provision of the Shanghai Gorgeous Guarantee
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Kong Sun Holdings”	Kong Sun Holdings Limited (江山控股有限公司), a company incorporated under the laws of Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 295)
“kWh”	kilowatt hour
“Latest Practicable Date”	28 June 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Material Adverse Effect”	any actual adverse effect or effect that affects the normal operation of the Target Company and the Project Company, other than normal operating expenses, which, under reasonable judgment, would exist on the value of the Target Company or its equity interest
“Minsheng New Energy Investment”	China Minsheng New Energy Investment Company Limited* (中民新能投資集團有限公司), a company established under the laws of the PRC with limited liability

DEFINITIONS

“Minsheng New Energy Shanghai”	China Minsheng New Energy (Shanghai) Investment Company Limited* (中民新能(上海)投資有限公司), a company established under the laws of the PRC with limited liability and is wholly owned by Minsheng New Energy Investment
“MW”	megawatt, which equals to 1,000,000 watts
“NDRC”	National Development and Reform Commission of the People’s Republic of China (中華人民共和國國家發展和改革委員會)
“Ningbo Tongce”	Ningbo Tongce New Energy Development Partnership (Limited Partnership)* (寧波同策新能源發展合夥企業(有限合夥))(previously known as Shenzhen Tongce New Energy Development Partnership (Limited Partnership)* (深圳同策新能源發展合夥企業(有限合夥)))
“Parties”	collectively, the Vendor, the Purchaser and the Target Company
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Project Company”	Jinchang Disheng Solar Energy Electricity Generation Company Limited* (金昌迪生太陽能發電有限公司), a company established under the laws of the PRC with limited liability and wholly-owned by the Vendor
“Project Value”	the project value of the Target Project of RMB1,050,000,000 (approximately HK\$1,186,500,000), which is calculated in accordance with the formula set out in the section headed “The Sale and Purchase Agreement – Consideration – Project Value” in the “Letter from the Board” in this circular
“Purchaser”	Shanghai Gorgeous Smarter Energy Company Limited* (上海國之杰智慧能源有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Rationale (Holdings) Investment”	Rationale (Holdings) Investment Limited (睿烜(控股)投資有限公司), a company incorporated under the laws of Hong Kong with limited liability
“Rationale Investment (Shanghai)”	Rationale Investment (Shanghai) Company Limited* (睿烜投資(上海)有限公司), a company incorporated under the laws of Hong Kong with limited liability
“Reference Date”	30 September 2016
“Remaining Equity Interest Consideration”	the amount of RMB326,555,000 (approximately HK\$369,007,000)
“Rich Crown”	Rich Crown International Industries Limited (富冠國際實業有限公司), a company incorporated under the laws of Hong Kong with limited liability and owned as to 99% by Mr. Ko Tin Kwok and 1% by Mr. Cheng Kwun Fu, respectively
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 31 March 2017 entered into among the Purchaser, the Vendor and the Target Company in relation to, among other things, the Acquisition
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“Shandong Hi-Speed Group”	Shandong Hi-Speed Group Company Limited* (山東高速集團有限公司), a company established under the laws of the PRC with limited liability
“Shandong Hi-Speed Investment Fund”	Shandong Hi-Speed Investment Fund Management Ltd., a company incorporated under the laws of the Cayman Islands with limited liability

DEFINITIONS

“Shandong Hi-Speed Investment Fund Management”	Shandong Hi-Speed Investment Fund Management Company Limited* (山東高速投資基金管理有限公司), a company established under the laws of the PRC with limited liability
“Shandong Hi-Speed Investment Holding”	Shandong Hi-Speed Investment Holding Company Limited* (山東高速投資控股有限公司), a company established under the laws of the PRC with limited liability
“Shanghai Gorgeous”	Shanghai Gorgeous Investment Development Company Limited* (上海國之杰投資發展有限公司), a company established under the laws of the PRC with limited liability and a controlling shareholder of the Company
“Shanghai Gorgeous Guarantee”	the guarantee provided by Shanghai Gorgeous in favour of the Project Company in respect of its loan from the Export-Import Bank of China pursuant to a guarantee agreement dated 31 March 2016 entered into between Shanghai Gorgeous and the Export-Import Bank of China
“Shanghai Gu Yuan”	Shanghai Gu Yuan Property Development Company Limited* (上海谷元房地產開發有限公司), a company established under the laws of the PRC and owned as to approximately 59.79% by Rich Crown and approximately 40.21% by Creaton Holdings, respectively
“Share(s)”	ordinary share(s) of HK\$0.0025 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“State Grid Company”	State Grid Gansu Electric Power Company* (國家電網甘肅省電力公司)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Qingdao Guxin Electricity Investment Company Limited* (青島谷欣電力投資有限公司), a company established under the laws of the PRC with limited liability
“Target Group”	the Target Company and its wholly-owned subsidiary, namely, the Project Company

DEFINITIONS

“Target Project”	the grid-connected solar power project with an installed capacity of 100 MW located in Jinchuan District, Jinchang City, Gansu Province, the PRC
“Tongce Equity”	Shenzhen Tongce Equity Investment Management Co., Ltd.* (深圳同策股權投資管理有限公司)
“Vendor”	Shanghai Guxin Asset Management Company Limited* (上海谷欣資產管理有限公司), a company established under the laws of the PRC with limited liability
“Vendor’s Loans”	the loans payable by the Target Company and the Project Company to the Vendor and its Associated Parties
“%”	per cent

For the purpose of this circular, translations of RMB into HK\$ or vice versa have been calculated by using an exchange rate of RMB1.00 equal to HK\$1.13. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

* For identification purposes only

LETTER FROM THE BOARD



CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED

中國智慧能源集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1004)

Board of Directors

Executive Directors:

Mr. Wang Hao (*Chairman and Chief Executive Officer*)

Mr. Ko Tin Kwok

Ms. Zhao Li

Mr. Lam Kwan Sing

Mr. Hon Ming Sang

Mr. Hu Hanyang

Independent non-executive Directors:

Mr. Fok Ho Yin, Thomas

Mr. Li Hui

Mr. Lam Cheung Mau

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

***Principal place of business
in Hong Kong:***

Room 3205-08

32/F, Harbour Centre

25 Harbour Road

Wanchai

Hong Kong

30 June 2017

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF 100 MW SOLAR POWER PROJECT IN THE PRC

INTRODUCTION

Reference is made to the Announcement whereby the Board announced that on 31 March 2017, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendor and the Target Company entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the entire equity interest in the Target Company for the Consideration of RMB644,977,000 (approximately HK\$728,824,000), subject to the Adjustment.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Target Company is wholly-owned by the Vendor. Through the Project Company, the Target Company owns and operates the Target Project, being a grid-connected solar power project with an installed capacity of 100 MW located in Jinchuan District, Jinchang City, Gansu Province, the PRC. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

THE SALE AND PURCHASE AGREEMENT

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

Date

31 March 2017

Parties

- (1) Shanghai Gorgeous Smarter Energy Company Limited* (上海國之杰智慧能源有限公司), an indirect wholly-owned subsidiary of the Company, as the Purchaser;
- (2) Shanghai Guxin Asset Management Company Limited* (上海谷欣資產管理有限公司), as the Vendor; and
- (3) Qingdao Guxin Electricity Investment Company Limited* (青島谷欣電力投資有限公司), as the Target Company.

Subject matter

The Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the entire equity interest in the Target Company, subject to the terms and conditions of the Sale and Purchase Agreement.

As at the Latest Practicable Date, the Target Company holds the entire equity interest in the Project Company, being the principal asset of the Target Company. The Project Company owns and operates the Target Project, being a grid-connected solar power project with an installed capacity of 100 MW located in Jinchuan District, Jinchang City, Gansu Province, the PRC.

LETTER FROM THE BOARD

Consideration

The Consideration for the Acquisition under the Sale and Purchase Agreement is RMB644,977,000 (approximately HK\$728,824,000), subject to the Adjustment, which comprises:

- (a) the Equity Interest Consideration of RMB492,960,000 (approximately HK\$557,045,000); and
- (b) the Vendor's Loans to the Target Company and Project Company on a consolidated basis as at the Reference Date of RMB152,017,000 (approximately HK\$171,779,000).

The Parties acknowledged that the Consideration (subject to the Adjustment) is calculated in accordance with the following formula, and the Parties acknowledged that the financial figures below will be audited as at the Reference Date:

$$\text{Consideration} = (A + B + C) - (D + E)$$

where:

- A = the Project Value as at the Reference Date, being RMB1,050,000,000 (approximately HK\$1,186,500,000)
- B = the cash balance held by the Target Company and the Project Company as at the Reference Date, being RMB4,608,000 (approximately HK\$5,207,000)
- C = the Accounts Receivable as at the Reference Date, being RMB166,405,000 (approximately HK\$188,038,000)
- D = the principal loan amounts and interests of the Target Company and Project Company payable to financial institutions as at the Reference Date, being RMB570,590,000 (approximately HK\$644,767,000)
- E = other liabilities of the Target Company and the Project Company as at the Reference Date, being RMB5,446,000 (approximately HK\$6,154,000)

LETTER FROM THE BOARD

Project Value

The Parties acknowledged that the Project Value of the Target Project is RMB1,050,000,000 (approximately HK\$1,186,500,000), which is calculated in accordance with the following formula based on the Enterprise Value of the Target Project of RMB10.5 per watt:

$$100 \text{ MW} \times \text{RMB}10.5 \text{ per watt} = \text{RMB}1,050,000,000 \text{ (approximately HK\$1,186,500,000)}$$

In order to arrive at the Project Value, the Parties made reference to the historical market comparable transactions of listed companies in Hong Kong engaging in solar power plant business from 2014 to 2016 in the Gansu Province of the PRC in which the Target Project is located, namely:

- (a) the acquisition of Yumen Yonglian Technology New Energy Co., Ltd.* (玉門市永聯科技新能源有限公司) by Kong Sun Holdings as disclosed in the announcement of Kong Sun Holdings dated 4 November 2014;
- (b) the acquisition of Gansu Hongyuan Solar Electric Co., Ltd.* (甘肅宏遠光電有限公司) by Kong Sun Holdings as disclosed in the announcement of Kong Sun Holdings dated 7 November 2014;
- (c) the acquisition of Lanzhou Taikē Photovoltaic Power Co., Ltd.* (蘭州太科光伏電力有限公司) by Kong Sun Holdings as disclosed in the announcement of Kong Sun Holdings dated 5 June 2015; and
- (d) the 2014 Acquisition, being the acquisition of Jinchang Jintai Photovoltaic Company Limited* (金昌錦泰光伏電力有限公司) by the Group as disclosed in the announcement of the Company dated 15 July 2014 and the circular of the Company dated 31 December 2014.

The Enterprise Value per watt in the above transactions ranges from approximately RMB9.5 to RMB10.5 and the Parties adopted the Enterprise Value of RMB10.5 per watt for calculation of the Project Value.

The Parties considered that the 2014 Acquisition to be a comparable transaction of the Target Project in terms of the size of production capacity, geographical location and benchmark on-grid electricity price per watt. In the 2014 Acquisition, an indirect wholly-owned subsidiary of the Company acquired the entire issued share capital of Jinchang Jintai Photovoltaic Company Limited* (金昌錦泰光伏電力有限公司), which in turn indirectly held two 50 MW solar power stations in the Gansu Province of the PRC with an aggregate production capacity of 100 MW. The comparable Enterprise Value in the 2014 Acquisition was also RMB10.5 per watt.

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Equity Interest Consideration

The Equity Interest Consideration comprises:

- (a) the Accounts Receivable as at the Reference Date of RMB166,405,000 (approximately HK\$188,038,000); and
- (b) the Remaining Equity Interest Consideration of RMB326,555,000 (approximately HK\$369,007,000).

Payment of the Consideration

(i) Equity Interest Consideration

The Equity Interest Consideration shall be payable in the following manners in accordance with the Sale and Purchase Agreement:

- (a) within 5 Business Days from the date of the Sale and Purchase Agreement, the Purchaser shall pay the amount of RMB65,311,000 (approximately HK\$73,801,000), representing 20% of the Remaining Equity Interest Consideration, to the designated bank account of the Vendor via bank transfer;
- (b) upon the satisfaction of the Conditions and within 5 Business Days from Completion, the Purchaser shall pay the amount of RMB228,588,500 (approximately HK\$258,305,000), representing 70% of the Remaining Equity Interest Consideration, to the designated bank account of the Vendor via bank transfer;
- (c) within 5 Business Days from the date on which all the discrepancies in the Target Project have been rectified by the Target Company and all the relevant compliance approvals in relation to the Target Project prescribed under the Sale and Purchase Agreement have been obtained by the Target Company, the Purchaser shall pay the amount of RMB32,655,500 (approximately HK\$36,901,000), representing 10% of the Remaining Equity Interest Consideration, to the designated bank account of the Vendor via bank transfer; and
- (d) the Accounts Receivables as at the Reference Date of RMB166,405,000 (approximately HK\$188,038,000) shall be payable by the Purchaser to the Vendor within 5 Business Days from the date on which the Project Company each time receives such sum of the Accounts Receivables; notwithstanding the above, the Purchaser shall pay to the Vendor any Accounts Receivables received by the Project Company between the Reference Date and the Completion Date within 5 Business Days from Completion.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the amount of RMB65,311,000 (approximately HK\$73,801,000), representing 20% of the Remaining Equity Interest Consideration, has been paid by the Purchaser to the Vendor.

(ii) Vendor's Loans

The Vendor's Loans as at the Reference Date amount to RMB152,017,000 (approximately HK\$171,779,000), and shall be payable in the following manners in accordance with the Sale and Purchase Agreement:

- (a) upon the satisfaction of the Conditions and within 5 Business Days from Completion, the Purchaser shall procure the Target Company to pay RMB136,815,300 (approximately HK\$154,601,000), representing 90% of the Vendor's Loans as at the Reference Date, to the designated bank account of the Vendor via bank transfer. The Vendor shall provide the Purchaser with the management accounts of the Target Company and the Project Company on the Completion Date. If the value of the Vendor's Loans as at the Completion Date is lower than that as at the Reference Date upon the reasonable judgment of the Vendor and the Purchaser, the amount payable in this paragraph shall be adjusted to 90% of the Vendor's Loans as stated in such management accounts as at the Completion Date; and
- (b) within 5 Business Days from the date on which all the discrepancies in the Target Project have been rectified by the Target Company and all the relevant compliance approvals in relation to the Target Project prescribed under the Sale and Purchase Agreement have been obtained by the Target Company, the Purchaser shall procure the Target Company to transfer the remaining amount of the Vendor's Loans, as adjusted in accordance with the audited accounts as at the Completion Date, to the Vendor or its designated Associated Party(ies) via bank transfer.

Adjustment of the Consideration

The Parties agreed that an institution jointly appointed by the Purchaser and the Vendor shall conduct an audit on the financial statements of the Target Company and the Project Company as at the Completion Date, and the value of the Vendor's Loans shall be adjusted based on the value as at the Completion Date as opposed to the Reference Date.

Without prejudice to the above, if (1) other liabilities of the Target Company which are not disclosed in the Sale and Purchase Agreement exist as at the Reference Date; (2) other liabilities of the Target Company which are not disclosed by the Vendor exist as at the Completion Date; or (3) it is revealed from the audited accounts upon Completion that (a) liabilities or expenses which are outside the normal operation of the Target Company or (b) unnecessary and unreasonable liabilities or expenses, exist as at the Completion Date,

LETTER FROM THE BOARD

such liabilities and expenses shall be borne by the Vendor, and the Vendor shall compensate the Purchaser and the Target Company, and the Purchaser shall be entitled to set off such liabilities and expenses against the unpaid and payable Consideration, in which case the Vendor shall continue to be responsible for any outstanding amount of such liabilities and expenses.

Basis of the Consideration

The Consideration for the Acquisition was determined after arm's length negotiations between the Purchaser and the Vendor principally taking into account, among other things, (i) the development and maintenance costs, (ii) the availability of sunlight in the area of the Target Project, (iii) the rate of feed-in tariff and (iv) references to historical market comparable transactions.

In addition, the Board also considered the following factors when determining the Consideration:

- (a) The Target Group recorded the net liabilities of RMB20,891,000 as at 31 December 2016 and the Vendor subsequently capitalised the amount due from the Target Company of RMB306,900,000 as capital contribution on 10 March 2017, which was anticipated by the Parties prior to entering into the Sale and Purchase Agreement.
- (b) The Target Group recorded the net losses of approximately RMB14,056,000 for the period from 23 June 2015 to 31 March 2016 and RMB6,835,000 for the nine months ended 31 December 2016, which were primarily attributable to (i) the depreciation of the solar power plant and (ii) the finance costs incurred on obligations under finance leases, which in aggregate accounted for more than 83% and 90% of the total costs and expenses of the Target Group for the respective period. The Board also considered that (i) the depreciation does not have any effect on the cash flow of the Target Group and (ii) the finance leases with an interest rate of 11.02% per annum were redeemed by a cash repayment of approximately RMB474,346,000 on 1 April 2016 and replaced with a bank borrowing with an interest rate of 4.41% per annum, such that the finance cost is expected to be significantly reduced.

LETTER FROM THE BOARD

- (c) Although the Target Group, through the Project Company, provided a financial guarantee to an Independent Third Party in favor of a bank enabling the Independent Third Party to obtain bank borrowing in the amount of RMB318,000,000, it was a Condition under the Sale and Purchase Agreement that there should be no guarantee for third party's debt provided by the Target Company or the Project Company. Accordingly, the financial guarantee should have been released prior to Completion and the Consideration should not account for the effect of the financial guarantee.
- (d) As disclosed in the section headed "Information on the Target Group – Risk management – Risk associated with tariff subsidy" below, as the renewable energy industry becomes more mature, the PRC government may reduce, and have reduced the applicable on-grid tariffs for certain solar power projects registered after announcing the reduction (the "**Policy Change**"). Notwithstanding the foregoing, the Target Group recorded its entitled on-grid tariff for (i) the period from 11 November 2013 to 31 March 2014 and two years ended 31 March 2015 and 2016 and (ii) the nine months period ended 31 December 2016, where the tariff subsidy amounted to approximately 68% and approximately 79% of the total revenue from the sales of electricity for each of the corresponding periods for the following reasons:
 - (i) according to the Notice in relation to the Effect of Price Leverage to Promote the Healthy Development of the Photovoltaic Industry* (國家發展改革委關於發揮價格槓桿作用促進光伏產業健康發展的通知) issued by the NDRC in August 2013, the applicable on-grid electricity price and standard tariff subsidy will be generally applicable for 20 years since the operation of the existing photovoltaic projects; and
 - (ii) to the best of the knowledge of the Company, as at the Latest Practicable Date, (1) the Target Group had not been notified by any PRC government authorities that the Policy Change would affect the amount of tariff subsidy receivable by the Target Group and (2) it is not aware of any effect of the Policy Change on the amount of tariff subsidy receivable by existing photovoltaic projects which have been enrolled in the Sixth Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (可再生能源電價附加資金補助目錄(第六批)) and fulfilled the relevant requirements to enjoy the applicable on-grid tariff subsidy.

Having considered the aforementioned factors, the fact that the Target Project has achieved on-grid connection and that it would provide steady income from the sales of electricity to the Group, the Directors (including the independent non-executive Directors) are of the view that the Consideration is fair and reasonable. The Acquisition will be funded by the internal resources of the Group.

LETTER FROM THE BOARD

Conditions

Completion is subject to and conditional upon the satisfaction of the following Conditions, or waiver by the Purchaser in writing (save for Condition (2) below which shall not be waived):

- (1) the Vendor having obtained all necessary consents, approvals and other relevant documentations in accordance with the relevant laws and the articles of association of the Vendor and the Target Company in respect of the Acquisition and other relevant matters;
- (2) each of the Purchaser and the Company having obtained all necessary consents, approvals and other relevant documentations in accordance with the relevant laws, their respective articles of association, and the rules of the relevant stock exchange(s) in respect of the Acquisition and other relevant matters (including but not limited to having complied with the relevant compliance requirements of a listed company as required by the Stock Exchange, and the approval of the Sale and Purchase Agreement and the transactions contemplated thereunder in the general meeting of the Company);
- (3) save for the Vendor's Loans, the Export-Import Bank Loans and the liabilities acknowledged by the Purchaser, there being no any other liabilities and/or contingent liabilities of Target Company and the Project Company;
- (4) there being no guarantee for third party's debt provided by the Target Company or the Project Company;
- (5) there being no judgment, award, ruling or injunction by any law, court, arbitration body or the relevant competent government authority which would limit, prohibit or cancel the Acquisition, and there being no pending or potential action, arbitration, judgment, award, ruling or injunction which have or are proved with evidence to have any Material Adverse Effect;
- (6) all representations, warranties and undertakings given by the Vendor and the Target Company under the Sale and Purchase Agreement remaining true, accurate and complete in all material respects (and no such representations, warranties and undertakings being untrue, inaccurate or incomplete which have any Material Adverse Effect), as at the date of the Sale and Purchase Agreement and as at the Completion Date, and the Vendor and the Target Company having fulfilled their respective undertakings which shall be fulfilled prior to the Completion Date and there being no breach of any terms in the transactional documents (and there being no breach of such undertakings which shall be fulfilled prior to the Completion Date or terms in the transactional documents which have any Material Adverse Effect);

LETTER FROM THE BOARD

- (7) there being no event, fact, condition, change or other circumstances that have, or are proved with evidence to have any Material Adverse Effect on the assets, financial condition, liabilities, technology, profit prospects and normal operation of the Target Company and the Project Company, as at the date of the Sale and Purchase Agreement and as at the Completion Date;
- (8) the Purchaser having completed the due diligence review on the Target Company and the Target Project and not having discovered any Material Adverse Effect, or the Purchaser having discovered certain Material Adverse Effect but which have been remedied by the Vendor and/or Target Company and/or Project Company; and
- (9) there being no other Material Adverse Effect on the Target Company, the Project Company and the Target Project.

The Vendor undertook to procure the Conditions to be fulfilled by 30 June 2017, or such other date as agreed between the Vendor and the Purchaser. If the fulfillment of any of the Conditions requires the cooperation of the Purchaser, the Purchaser agreed to cooperate to the extent that is reasonable and necessary.

Completion

The parties shall complete the registration procedures with the relevant administrative authority for industry and commerce in the PRC in accordance with the terms of the Sale and Purchase Agreement within three Business Days after the satisfaction of the Conditions (or the waiver of the Condition(s) by the Purchaser in writing) in accordance with terms of the Sale and Purchase Agreement. Completion shall take place upon completion of such registration procedures.

Debt rearrangements

With a view to accomplishing the Acquisition, the Vendor undertakes to rearrange the debts of the Target Company and the Project Company, to ensure that the Target Company and the Project Company do not have any outstanding liabilities as at the Completion Date, save for any shareholders' loan and third party's debt as acknowledged by the Purchaser. The debt rearrangements comprise the following:

Debt rearrangements in relation to the Vendor's Loans

For the Vendor's Loans owed by the Target Company and the Project Company as at the Reference Date (including the principal amount and interests, as evidenced by the executed version of the relevant loan document(s) and the corresponding payment records, and as listed in the Sale and Purchase Agreement), the Vendor shall rearrange such Vendor's Loans as the debts to be owed by the Target Company to the

LETTER FROM THE BOARD

Vendor prior to the Completion Date, and the Target Company shall repay such debts in accordance with the section headed “Consideration – Payment of the Consideration – (ii) Vendor’s Loans” above. The Vendor confirmed that no interest shall be accrued to the Vendor’s Loans subsequent to the Reference Date.

Financial institution liabilities

The Export-Import Bank Loans owed by the Project Company to the Export-Import Bank of China with the principal amount and interest of not more than RMB500,237,000 (approximately HK\$565,268,000) as at the Reference Date shall continue to be borne by the Project Company and repaid in accordance with the relevant contractual arrangements with the Export-Import Bank of China.

Other third parties debts

The Vendor shall procure the Target Company and the Project Company to repay in full, prior to the Completion Date, other existing liabilities of the Target Company and of the Project Company between the date of the Sale and Purchase Agreement and the Completion Date.

INFORMATION ON THE TARGET GROUP

The Target Company was established under the laws of the PRC on 29 January 2016 and is an investment holding company.

The Project Company was established under the laws of the PRC on 11 November 2013. As at the Latest Practicable Date, the Project Company is the sole subsidiary of the Target Company, and is principally engaged in the construction, operation and management of the Target Project.

History of the Target Group

At the time of the incorporation of the Project Company, Mr. Zhou Chunping, an Independent Third Party, was the sole and controlling shareholder of the Project Company. On 25 December 2013, Mr. Zhou Chunping entered into sale and purchase agreements with Ningbo Tongce and Tongce Equity, pursuant to which Mr. Zhou Chunping agreed to transfer 99% and 1% equity interests in the Project Company to Ningbo Tongce and Tongce Equity, respectively. The transaction was completed on 7 January 2014.

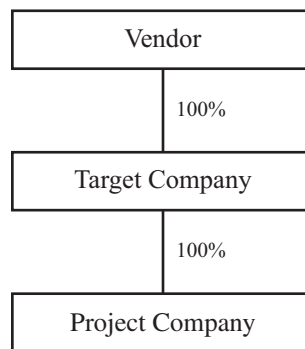
On 22 June 2015, Ningbo Tongce and Tongce Equity entered into sale and purchase agreements with the Vendor, pursuant to which Ningbo Tongce and Tongce Equity agreed to transfer their corresponding equity interests in the Project Company to the Vendor, representing the entire equity interest in the Project Company. The transaction was completed on 23 June 2015.

LETTER FROM THE BOARD

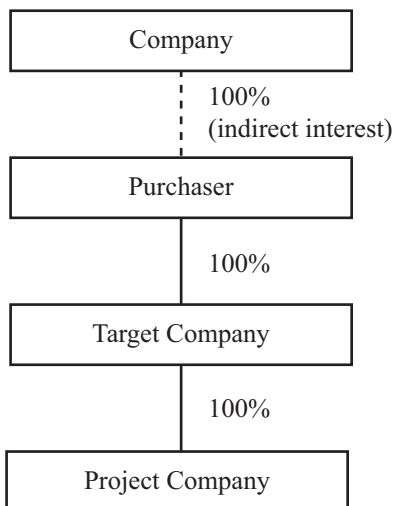
Subsequently, the Vendor established the Target Company on 29 January 2016 and transferred the entire equity interest in the Project Company to the Target Company on 3 March 2016. Upon completion of the transfer, the Project Company became the wholly-owned subsidiary of the Target Company.

Corporate structure of the Target Group

The following chart illustrates the corporate structure of the Target Group as at the Latest Practicable Date and immediately before Completion:



The following chart illustrates the corporate structure of the Target Group immediately after Completion:



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Financial information of the Target Group

Based on the consolidated financial statements of the Target Group prepared in accordance with the Hong Kong Financial Reporting Standards, the financial information of the Target Group for (i) the period from 23 June 2015 (being the date on which the Vendor obtained control of the Project Company) to 31 March 2016 and (ii) the nine months ended 31 December 2016 as extracted from the financial information of the Target Group contained in Appendix II to this circular was approximately as follows:

	For the period from 23 June 2015 to 31 March 2016 (audited) (RMB'000)	For the nine months ended 31 December 2016 (audited) (RMB'000)
Revenue	66,296 (approximately HK\$74,914)	58,911 (approximately HK\$66,569)
Loss before taxation	(14,142) (approximately HK\$(15,980))	(6,921) (approximately HK\$(7,821))
Loss and total comprehensive expense	(14,056) (approximately HK\$(15,883))	(6,835) (approximately HK\$(7,724))

The audited net liabilities of the Target Group as at 31 December 2016 was approximately RMB20,891,000 (approximately HK\$23,607,000).

LETTER FROM THE BOARD

Based on the financial statements of the Project Company prepared in accordance with the Hong Kong Financial Reporting Standards, the financial information of the Project Company for (i) the period from 11 November 2013 (being the date of establishment) to 31 March 2014, (ii) each of the two years ended 31 March 2015 and 2016 and (iii) the two nine-month periods ended 31 December 2015 and 2016 as extracted from the financial information of the Project Company contained in Appendix III to this circular was approximately as follows:

	For the period from 11 November 2013 (date of establishment) to 31 March 2014 (audited) (RMB'000)	For the year ended 31 March 2014		For the nine months ended 31 December	
		2015	2016	2015	2016
		(audited) (RMB'000)	(audited) (RMB'000)	(unaudited) (RMB'000)	(audited) (RMB'000)
Revenue	13,136 (approximately HK\$14,844)	52,661 (approximately HK\$59,507)	94,800 (approximately HK\$107,124)	74,593 (approximately HK\$84,290)	58,911 (approximately HK\$66,569)
Profit/(loss) before taxation	6,331 (approximately HK\$7,154)	(29,624) (approximately HK\$(35,475))	(10,184) (approximately HK\$(11,508))	(3,918) (approximately HK\$(4,427))	(6,571) (approximately HK\$(7,425))
Profit/(loss) and total comprehensive income (expenses)	6,331 (approximately HK\$7,154)	(29,627) (approximately HK\$(33,479))	(10,184) (approximately HK\$(11,508))	(3,918) (approximately HK\$(4,427))	(6,571) (approximately HK\$(7,425))

The audited net asset value of the Project Company as at 31 December 2016 was approximately RMB256,252,000 (approximately HK\$289,565,000).

The Shanghai Gorgeous Guarantee

On 31 March 2016, Shanghai Gorgeous, a controlling shareholder of the Company, provided the Shanghai Gorgeous Guarantee in respect of the loan of the Project Company from the Export-Import Bank of China pursuant to a loan agreement dated 31 March 2016 entered into between the Project Company (as borrower) and the Export-Import Bank of China (as lender), with the principal amount of RMB499,625,000 (approximately HK\$564,576,000) and a term of 118 months.

The Shanghai Gorgeous Guarantee shall cover the principal amount, the interests accrued thereon, liquidated damages, damages, fees and expenses to enforce the rights of the Export-Import Bank of China and any other payments that the Project Company shall be responsible for. Pursuant to the Guarantee Fee Agreement, Shanghai Gorgeous received a one-off fee of approximately RMB9,992,000 (approximately HK\$11,291,000) from the Project Company for the provision of the Shanghai Gorgeous Guarantee, prior to Shanghai Gorgeous becoming the controlling shareholder of the Company.

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Utilization rates of the Target Project

The historical utilization rates of the Target Project for the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the nine month ended 31 December 2016 are approximately 29%, 39%, 73% and 65%, respectively.

Risk management

The Target Group is exposed to various types of risks, including interest risk, credit risk, liquidity risk, market risk and risk associated with tariff subsidy.

Interest risk

The Target Group is exposed to interest rate risk in relation to fixed-rate bank and other borrowings. The Target Group currently does not have an interest rate hedging policy. However, the management of the Target Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Target Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and obligation under finance lease. However, its exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

Credit risk

The credit risk of the Target Group which would cause a financial loss to the Target Group is primarily attributable to the failure by the counterparties to discharge an obligation, and such risk arises from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the Target Group has policies in place for determining credit limits and credit approvals, as well as other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. The Target Group also reviews the recoverable amount of each individual debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

As at each of 31 March 2016 and 31 December 2016, the entire amount of the total trade receivables was due from the State Grid Company. The Target Group is exposed to the concentration of credit risk to the State Grid Company, including tariff subsidy funded by the relevant PRC government authorities, which will first be allocated to the State Grid Company and then remitted to the Project Company. In addition, as the Project Company has been successfully enrolled in the Sixth Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (可再生能源電價附加資金補助目錄(第六批)) on 24 August 2016, the credit risk is considered to be significantly reduced.

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The Target Group is also exposed to the concentration of credit risk on liquid funds deposited with several banks. However, the credit risk on bank balances is limited as the majority of the counterparties are state-owned banks with good reputation or reputable banks with good credit rating assigned by international credit rating agencies.

Liquidity risk

The current liabilities of the Target Group exceeded its total current assets by RMB398,829,000 as at 31 December 2016. In order to manage liquidity risks, the management of the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance its operations and mitigate the effects of fluctuations in cash flows. The management of the Target Group also monitors the utilization of finance leases and other borrowings. In addition, the Company is committed to provide financial support to the Target Group when its debts fall due upon Completion.

Market risk

The Target Group is exposed to price risk in respect of its financial asset designated at fair value through profit or loss. The Target Group currently does not have a price risk hedging policy and the management of the Target Group will continue to monitor price risk exposure and consider hedging against it should the need arise.

Risk associated with tariff subsidy

The tariff subsidy is one of the key income streams for the Target Group and any adjustment in the tariff subsidies or other economic incentives might influence the profitability of the Target Project.

The availability and size of such subsidies and incentives depend, to a large extent, on political considerations and environmental policies of the PRC government. The adjustments to subsidies and economic incentives in the PRC are subject to the sole discretion of the PRC government. The PRC government has historically issued Notice for Announcement of the Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (關於公佈可再生能源電價附加資金補助目錄的通知), and has recently issued the Notice for Application of the Seventh Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (關於組織申報第七批可再生能源電價附加補助項目的通知) in March 2017. The enrollment in such catalogues would allow solar power plants to receive feed-in-tariffs from the relevant PRC government authorities.

As the renewable energy industry becomes more mature, the PRC government may reduce, and have reduced the applicable on-grid tariffs. For example, in December 2015, the NDRC announced a reduction in feed-in-tariff with a view to improving efficiency of the additional subsidies on tariff for renewable energy. In December 2016, the NDRC announced a further reduction in feed-in-tariff for solar power projects registered after 1 January 2017. In order to minimize this risk, the Target Group will continue to implement cost control measures in order to lower development and operating costs.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

Business strategies of the Group

The Company is an investment holding company and the Group is principally engaged in clean energy business and investment business, including the investment, operation and management of solar power plants. It is the strategy of the Group to identify suitable investment opportunities to acquire solar power plants with favorable prospect and potential for stable returns and/or cash flows. As stated in the annual results announcement of the Company for the year ended 31 March 2017, clean-energy power generation business is the key development of the Group at this stage. As at the Latest Practicable Date, the clean-energy power generation controllable on-grid production capacity of the Group was approximately 130 MW, all of which are photovoltaic power generation projects located in Gansu, Shanghai and Shandong. As the Project Company has commenced business operations, it is expected that the Acquisition will bring in operational revenue for the Group.

Synergies with the existing solar power plants of the Group

In addition, as the Target Project is located in Gansu, which is geographically close to the existing photovoltaic power generation projects of the Group located in Gansu, such existing projects will share certain common management with the Target Project with a view to reducing costs and achieving economies of scale. The distance between the Target Project and the two existing solar power plants is approximately 40 kilometers. The operating scale of the Target Project together with the existing projects of the Group in Gansu may also warrant a team of plant maintenance professionals to be designated and established by the Group in the long run. Based on the foregoing, it is expected that the Acquisition will supplement the existing portfolio of solar power plants of the Group, and hence further expand its scale of business in the solar energy sector.

Prospects of the solar energy sector

As the PRC government has selected solar energy as one of the key ways to promote clean energy over the next decade, the Company has been actively looking for potential investments in the solar sector and will focus on the strategic development of the solar power generation business and devote more resources in such business in the coming future.

Pursuant to the 13th Five Year Plan of the PRC, the PRC targets to nearly triple its installed capacity for solar energy by 2020, by increasing the target solar capacity by 15 to 20 GW per year for the next five years. In order to tap into this fast growing market, the Group has been and will continue to identify and invest in suitable projects with good potential. The Company is confident that the solar energy business will become the key growth contributor to the Group's business in both short and long run.

LETTER FROM THE BOARD

Benefits from on-grid connection

The Target Project owned by the Project Company has successfully achieved on-grid connection and enrolled in the Sixth Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (可再生能源電價附加資金補助目錄(第六批)), which enjoys the feed-in tariff benefits for renewable energy by the PRC government.

In particular, the State Grid Company and the Project Company entered into the Grid Connection Agreement on 18 December 2013, pursuant to which the State Grid Company agreed to manage the solar power plant of the Project Company, and the Project Company agreed to submit to the integrated management by the State Grid Company in respect of the production of its solar power plant. The Grid Connection Agreement provided for the rights and obligations of the parties in relation to, among other things, (i) the operation, management, maintenance and technical development of the equipment and facilities of the grid system; (ii) the management of electricity generation by the State Grid Company; (iii) the submission of electricity generation plans by the Project Company; (iv) the procedures for application to on-grid connection status; and (v) the administration and maintenance of solar power plant. The Grid Connection Agreement will expire on 30 December 2018, subject to renewal by the parties.

For the period from 11 November 2013 to 31 March 2014 and two years ended 31 March 2015 and 2016, the tariff subsidy amounted to approximately RMB8,962,000, RMB35,663,000 and RMB64,360,000 respectively, representing approximately 68% of the total revenue from the sales of electricity for each of the corresponding periods. The tariff subsidy was approximately RMB46,652,000 for the nine months period ended 31 December 2016, representing approximately 79% of the total electricity sales for the period.

Having taken into consideration of the above factors, the Directors (including the independent non-executive Directors) are of the view that the Acquisition will enable the Group to further expand its scale of business in the solar energy sector and enhance return to the Shareholders.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, and the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Group will become indirectly wholly-owned subsidiaries of the Company, and the financial results and the assets and liabilities of the Target Group will be consolidated in the financial statements of the Group.

LETTER FROM THE BOARD

Earnings

Based on the audited consolidated financial statements of the Target Group for the nine months ended 31 December 2016, the Target Group recorded a loss after taxation of approximately RMB6,835,000 (approximately HK\$7,724,000). Assuming that Completion had taken place on 31 March 2017, the loss after taxation of the Group for the year ended 31 March 2017 would have increased.

Notwithstanding the aforementioned loss-making position of the Target Group, in light of the future prospects of the Acquisition as stated in the section headed “Reasons for and Benefits of the Acquisition” above and the section headed “Financial and Trading Prospects of the Enlarged Group” below, and in particular, the stable electricity generation from the Target Project and the stable cash flows generated therefrom, the Directors (including independent non-executive Directors) are of the view that the Acquisition will have a positive impact on the earnings of the Group in the future.

Assets and liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, which illustrates the financial effects of the Acquisition assuming that Completion had taken place on 31 March 2017:

- (i) the total net assets attributable to owners of the Group would have been decreased from approximately HK\$2,014,945,000 to HK\$2,013,000,000;
- (ii) the total assets of the Group would have been increased from approximately HK\$3,429,090,000 to HK\$4,213,961,000; and
- (iii) the total liabilities of the Group would have been increased from approximately HK\$1,414,145,000 to HK\$2,200,961,000.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in clean energy business and investment business. As stated in the annual results announcement of the Company for the year ended 31 March 2017, clean-energy power generation business is the key development of the Group at this stage. The Group will continue to speed up the development and investment progress of its principal businesses, adhere firmly to its corporate strategy, and intensify its efforts in project mergers and acquisitions as well as cooperative development. Specifically, the Company will continue to introduce large corporations to strengthen its domestic capital strengths in operation, pay more attention to the cooperation with industry quality enterprises, leverage on respective advantages, improve efficiency, and focus on the joint development or acquisition of established quality assets.

LETTER FROM THE BOARD

The Group also intends to pursue the Acquisition, being the subject matter of this circular. With the committed efforts of the management of the Group, taken into consideration the fact that the Target Project owned by the Project Company has successfully achieved on-grid connection and enrolled in the Sixth Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (可再生能源電價附加資金補助目錄(第六批)), it is expected that the Acquisition will be one of the milestones in achieving the mission of the Group in developing its photovoltaic business. In the future, depending on the review of operations and long-term strategy by the Enlarged Group, the Enlarged Group will continue its efforts in exploring potential business or investment opportunities in the solar energy industry with a view to strengthening the revenue bases of the Enlarged Group and further enhancing Shareholders' value.

INFORMATION ON THE VENDOR

The Vendor is a company established under the laws of the PRC with limited liability and is an investment holding company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are Independent Third Parties.

INFORMATION ON THE GROUP

The Company is a company incorporated under the laws of Bermuda as an exempted company with limited liability and is an investment holding company.

The Purchaser is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in investment holding.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 25% and all the applicable percentage ratios are less than 100%, the Acquisition constitutes a major transaction of the Company and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

SGM

The SGM will be convened and held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 4 August 2017 at 2:30 p.m. for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A notice convening the SGM is set out on pages SGM-1 to SGM-3 of this circular.

As disclosed in the section headed “Information on the Target Group – The Shanghai Gorgeous Guarantee” above, on 31 March 2016, Shanghai Gorgeous provided the Shanghai Gorgeous Guarantee in respect of the loan of the Project Company from the Export-Import Bank of China with the principal amount of RMB499,625,000 (approximately HK\$564,576,000) and Shanghai Gorgeous received a one-off fee of approximately RMB9,992,000 (approximately HK\$11,291,000) from the Project Company. As such, Shanghai Gorgeous and its associates will be required to abstain from voting on the ordinary resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Save as aforementioned, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder had a material interest in the Acquisition. Therefore, no other Shareholder is required to abstain from voting on the resolution to be proposed at the SGM.

A form of proxy for use at the SGM is sent to the Shareholders together with this circular. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending, and voting in person at the SGM or any adjournment thereof if you so desire.

RECOMMENDATIONS

The Directors are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the SGM as set out on pages SGM-1 to SGM-3, which form part of this circular.

As Completion is subject to a number of Conditions, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

Yours faithfully,

For and on behalf of

China Smarter Energy Group Holdings Limited

Wang Hao

Chairman and Chief Executive Officer

* *For identification purposes only*

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year of the Group.

The audited consolidated financial statements of the Company for the years ended 31 March 2014, 31 March 2015 and 31 March 2016, and the unaudited condensed consolidated financial statements of the Company for the six months ended 30 September 2016, together with the relevant notes thereof are disclosed in the following documents:

- (i) the annual report of the Company for the year ended 31 March 2014 (pages 33 to 107) (<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0514/LTN20140514298.pdf>);
- (ii) the annual report of the Company for the year ended 31 March 2015 (pages 36 to 117) (<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0703/LTN20150703733.pdf>);
- (iii) the annual report of the Company for the year ended 31 March 2016 (pages 35 to 118) (<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0711/LTN20160711271.pdf>); and
- (iv) the interim report of the Company for the six months ended 30 September 2016 (pages 3 to 36) (<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/1130/LTN20161130842.pdf>).

Please also refer to the annual results announcement of the Company for the year ended 31 March 2017:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0612/LTN20170612823.pdf>.

2. STATEMENT OF INDEBTEDNESS

As at the close of business of 30 April 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had the following indebtedness:

	The Group			The Target Group			Total
	Secured	Unsecured		Secured	Unsecured		
			Non-			Non-	
	Guaranteed	Guaranteed		Guaranteed	Guaranteed		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Convertible bonds	390,000	–	–	–	–	–	390,000
Loans and bank borrowings	234,000	–	652,010	535,349	–	–	1,421,359
Vendor's loans	–	–	–	–	–	271,125	271,125
Other loan	–	–	–	–	–	2,486	2,486
Finance lease payables	263,742	–	–	–	–	–	263,742
Total	887,742	–	652,010	535,349	–	273,611	2,348,712

Convertible bonds

The Group's convertible bonds were secured by (i) the share charges over the share capital of the Group's wholly-owned subsidiaries, Rising Group International Limited, China Smarter Energy Investment Limited and Rander International Limited, and (ii) the first floating charges on property, assets, goodwill, rights and revenue of the Company and its wholly-owned subsidiaries, Max Access Limited and Surplus Basic Limited, and were guaranteed by the Company's wholly-owned subsidiaries, Max Access Limited and Rising Group International Limited.

Loans and bank borrowings

Loan to the extent of HK\$234,000,000 in the form of bonds of the Group was secured by (i) share charges over the share capital of the Group's wholly-owned subsidiaries, Rising Group International Limited, China Smarter Energy Investment Limited and Rander International Limited, and (ii) the floating charges on property, assets, goodwill, rights and revenue of the Company and its wholly-owned subsidiaries, Max Access Limited and Surplus Basic Limited, and was guaranteed by the Company's wholly-owned subsidiaries, Max Access Limited and Rising Group International Limited.

The Target Group had an outstanding bank loan with principal amount of HK\$535,349,000, which was secured by (i) the share charges over the share capital of the Target Group's subsidiary and (ii) the charges on a bank deposit, trade receivables and certain machineries and equipment, and was guaranteed by Shanghai Gorgeous.

Finance lease payables

The Group had outstanding finance lease payables with total principal amount of HK\$263,742,000, which were secured by certain machineries and equipment and trade receivables of the Group.

Contingent liabilities

The Target Group provided a financial guarantee in favour of a bank enabling an Independent Third Party to obtain the general banking facilities to up to an aggregate amount of HK\$359,340,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have: (a) any other debt securities issued and outstanding, and authorised or otherwise created but unissued; (b) any other term loans (whether guaranteed, unguaranteed, secured or unsecured); (c) any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (d) any other mortgages or charges; or (e) any other material contingent liabilities or guarantees as at the close of business on 30 April 2017.

For the purpose of the above statement of indebtedness, RMB and US\$ have been translated into HK\$ at the exchange rates of RMB1 to HK\$1.13 and US\$1 to HK\$7.8.

3. RECENT DEVELOPMENTS**Proposed acquisition of the entire equity interest in Dezhou Jiayang, Changfeng Hongyang and Gaoan Jinjian**

On 31 March 2017, the Purchaser (as the purchaser) entered into the following agreements:

- (i) the sale and purchase agreement dated 31 March 2017 entered into between the Purchaser, Minsheng New Energy Shanghai and Dezhou Jiayang, pursuant to which the Purchaser conditionally agreed to acquire, and Minsheng New Energy Shanghai conditionally agreed to sell, the entire equity interest in Dezhou Jiayang, a company that owns and operates the 10 MW rooftop photovoltaic power generation project located in Dezhou City, Shandong Province, for the consideration of RMB15,300,000 (approximately HK\$17,289,000) and the Purchaser agreed to assume certain liabilities of Minsheng New Energy Shanghai in the aggregate amount of RMB66,614,000 (approximately HK\$75,274,000);

- (ii) the sale and purchase agreement dated 31 March 2017 entered into between the Purchaser, Minsheng New Energy Investment and Changfeng Hongyang, pursuant to which the Purchaser conditionally agreed to acquire, and Minsheng New Energy Investment conditionally agreed to sell, the entire equity interest in Changfeng Hongyang, a company that owns and operates the 20 MW distributed photovoltaic power generation project located in Changfeng County, Hefei City, Anhui Province, for the consideration of RMB75,525,000 (approximately HK\$85,343,000) and the Purchaser agreed to assume certain liabilities of Minsheng New Energy Investment in the aggregate amount of RMB136,317,000 (approximately HK\$154,038,000); and
- (iii) the sale and purchase agreement dated 31 March 2017 entered into between the Purchaser, Minsheng New Energy Investment and Gaoan Jinjian, pursuant to which the Purchaser conditionally agreed to acquire, and Minsheng New Energy Investment conditionally agreed to sell, the entire equity interest in Gaoan Jinjian, a company that owns and operates the 20 MW distributed photovoltaic power generation project located in Jianshan Town, Gaoan City, Jiangxi Province, for the consideration of RMB51,941,000 (approximately HK\$58,693,000) and the Purchaser agreed to assume certain liabilities of Minsheng New Energy Investment in the aggregate amount of RMB118,471,000 (approximately HK\$133,872,000).

Please refer to the announcement of the Company dated 2 April 2017 for further details of the aforementioned acquisitions.

4. WORKING CAPITAL

After due and careful enquiry, taking into account the cash flow impact of the Acquisition and the present financial resources available to the Group, including internally generated funds and available banking facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.

Deloitte.

德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED (THE "COMPANY")

Introduction

We report on the historical financial information of Qingdao Guxin Electricity Investment Company Limited* (青島谷欣電力投資有限公司) ("Qingdao Guxin") and its subsidiary (together, the "Target Group") set out on pages II-3 to II-53, which comprises the consolidated statement of finance position as at 31 March 2016 and 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the period from 23 June 2015 (the date when Qingdao Guxin obtained control over the Project Company as defined in this circular) to 31 March 2016 and from 1 April 2016 to 31 December 2016 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-53 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 30 June 2017 (the "Circular") in connection with the proposed major transaction in relation to acquisition of entire equity interest in Qingdao Guxin.

Director's responsibility for the Historical Financial Information

The director of Qingdao Guxin are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the director of Qingdao Guxin determines is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

* English name is for identification purpose only

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of Qingdao Guxin, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 March 2016 and 31 December 2016, and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance***Adjustments***

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by Qingdao Guxin in respect of the Relevant Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 June 2017

A. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP**PREPARATION OF HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of Qingdao Guxin for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the period from 23/06/2015 to 31/03/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
	<i>Notes</i>		
Revenue	6	66,296	58,911
Cost of sales		<u>(37,060)</u>	<u>(36,947)</u>
Gross profit		29,236	21,964
Interest income		43	21
Other gains and losses	7	295	(3,625)
Administrative expenses		(1,372)	(1,254)
Finance costs	8	<u>(42,344)</u>	<u>(24,027)</u>
Loss before tax	9	(14,142)	(6,921)
Income tax credit	10	<u>86</u>	<u>86</u>
Loss and total comprehensive expense for the period		<u><u>(14,056)</u></u>	<u><u>(6,835)</u></u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
	Notes		
NON-CURRENT ASSETS			
Equipment		56	27
Solar power plant	12	777,598	746,826
Goodwill	13	23,058	23,058
Value-added tax recoverable	15	64,038	49,573
Other non-current assets	15	9,776	8,129
		<u>874,526</u>	<u>827,613</u>
CURRENT ASSETS			
Trade and other receivables	16	137,798	135,932
Amount due from a fellow subsidiary	17	–	36,000
Value-added tax recoverable	15	13,663	19,195
Financial asset designated at fair value through profit or loss	18	–	30,000
Bank balances and cash	19	501,648	35,280
		<u>653,109</u>	<u>256,407</u>
CURRENT LIABILITIES			
Trade and other payables	20	14,542	8,603
Amount due to immediate holding company	21	451,586	440,822
Bank and other borrowings	22	32,609	196,450
Obligation under finance lease	23	103,588	–
Financial guarantee obligation	24	9,891	9,361
		<u>612,216</u>	<u>655,236</u>
NET CURRENT ASSETS (LIABILITIES)		<u>40,893</u>	<u>(398,829)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>915,419</u>	<u>428,784</u>
CAPITAL AND RESERVES			
Paid-in capital	26	–	–
Reserves		<u>(14,056)</u>	<u>(20,891)</u>
TOTAL EQUITY		<u>(14,056)</u>	<u>(20,891)</u>
NON-CURRENT LIABILITIES			
Bank and other borrowings	22	553,760	447,440
Obligation under finance lease	23	373,394	–
Deferred tax liabilities	25	2,321	2,235
		<u>929,475</u>	<u>449,675</u>
		<u>915,419</u>	<u>428,784</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
Merger accounting combination arising from business combination under common control completed on 23 June 2015 (<i>notes 2 and 14</i>)	306,900	–	306,900
Reorganisation (<i>as defined in note 2</i>)	(306,900)	–	(306,900)
Loss for the period	<u>–</u>	<u>(14,056)</u>	<u>(14,056)</u>
Balance at 31 March 2016	–	(14,056)	(14,056)
Loss for the period	<u>–</u>	<u>(6,835)</u>	<u>(6,835)</u>
Balance at 31 December 2016	<u><u>–</u></u>	<u><u>(20,891)</u></u>	<u><u>(20,891)</u></u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the period from 23/06/2015 to 31/3/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
OPERATING ACTIVITIES		
Loss before tax	(14,142)	(6,921)
Adjustments for:		
Finance costs	42,344	24,027
Depreciation of equipment	31	29
Depreciation of solar power plant	30,772	30,772
Release of financial guarantee obligation	(530)	(530)
Interest income	(43)	(21)
Net loss on early redemption of obligation under finance lease	–	4,160
Financial guarantee expense	–	847
Operating cash flows before movements in working capital	58,432	52,363
(Increase) decrease in trade and other receivables	(54,473)	2,856
Increase in trade and other payables	3,026	3,071
CASH GENERATED FROM OPERATION	6,985	58,290
Income tax paid	–	–
NET CASH FROM OPERATING ACTIVITIES	6,985	58,290
INVESTING ACTIVITIES		
Payments for construction cost in respect of solar power plant	(175,923)	–
Decrease in value-added tax recoverable	11,532	8,550
Interests received	43	21
Purchase of a financial asset designated at fair value through profit or loss	–	(30,000)
Borrowing advanced to a fellow subsidiary	–	(36,000)
NET CASH USED IN INVESTING ACTIVITIES	(164,348)	(57,429)

	For the period from 23/06/2015 to 31/3/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
FINANCING ACTIVITIES		
New bank and other borrowings raised	529,630	19,000
Repayment to immediate holding company	(28,000)	(34,896)
Interest paid	(2,000)	(20,399)
Payment of financial guarantee service fee	–	(9,992)
Deposit paid for securing other borrowing	(800)	(190)
Repayment of obligation under finance lease	(66,893)	(474,346)
Payment of penalty charge on early redemption of obligation under finance lease	–	(6,538)
Advance from independent third parties	–	36,000
Advance from immediate holding company	172,686	24,132
Cash inflows arising from merger combination of a subsidiary under common control (<i>note 28</i>)	<u>54,388</u>	<u>–</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>659,011</u>	<u>(467,229)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	501,648	(466,368)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>–</u>	<u>501,648</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>501,648</u>	<u>35,280</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION**

Qingdao Guxin was established in the PRC on 29 January 2016 as a limited liability company under the Company Law of the PRC. The address of the registered office and the principal place of business of Qingdao Guxin is Room 2002, Tower 2, No.180 Haier Road, Laoshan District, Qingdao, Shandong Province. The immediate holding company of the Target Group is Shanghai Guxin Asset Management Company Limited* (上海谷欣資產管理有限公司)(“Shanghai Guxin”), a limited liability company established under the Company Law of the PRC. Shanghai Guxin is owned by Shanghai Yihe Investment Management Company Limited* (上海逸合投資管理有限公司) and Shanghai Qinxin Investment Development Company Limited* (上海瑾信投資發展有限公司) as to 50% and 50%, respectively, both were limited liability companies established in the PRC.

Qingdao Guxin is an investment holding company, while its subsidiary, Jinchang Disheng, was engaged in the operation of a grid-connected solar power project located in Jinchuan District, Jinchang City, Gansu Province, the PRC.

No PRC statutory financial statement have been issued for Qingdao Guxin since its date of establishment as there are no statutory requirements for it to issue statutory audited financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA and the principle of merger accounting (under Accounting Guideline 5 “Merger Accounting for Common Control Combinations”) issued by HKICPA (“AG5”).

On 22 June 2015, Shanghai Guxin entered into share purchase agreements with the shareholders of Jinchang Disheng Solar Energy Generation Company Limited (金昌迪生太陽能發電有限公司)(“Jinchang Disheng”), which were independent third parties, pursuant to which Shanghai Guxin acquired the 100% equity interest of Jinchang Disheng from them for an aggregate cash consideration of RMB306,900,000. The transaction was completed on 23 June 2015. Jinchang Disheng was engaged in the operation of a grid-connected solar power project located in Jinchuan District, Jinchang City, Gansu Province, the PRC.

* English name is for identification purpose only

Shanghai Guxin, subsequently on 29 January 2016, established a wholly-owned subsidiary, namely Qingdao Guxin, in the PRC and transferred its entire 100% equity interest in Jinchang Disheng to Qingdao Guxin for a cash consideration of RMB306,900,000 (the “Reorganisation”). The Reorganisation was completed on 3 March 2016, and Qingdao Guxin became the immediate holding company of Jinchang Disheng, since then.

The Target Group resulting from the Reorganisation is regarded as a continuing entity as Qingdao Guxin and Jinchang Disheng were under common control of Shanghai Guxin from 23 June 2015 to 31 December 2016 and before and after Reorganisation. As a result, the Historical Financial Information of the Target Group has been prepared as if the present group structure had been in place throughout the Relevant Periods or since Qingdao Guxin’s date of establishment. As a result, the Historical Financial Information has included the losses, assets and liabilities of Qingdao Guxin and Jinchang Disheng since the date on which they first come under common control. The amounts shown for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and related notes for the period ended 31 December 2016 covered the period from 1 April 2016 to 31 December 2016 and such for the period ended 31 March 2016 covered the period from 23 June 2015 to 31 March 2016 and, therefore may not be comparable with amounts shown for each period.

The Target Group’s current liabilities exceeded its total current assets by RMB398,829,000 as at 31 December 2016. In addition, the Target Group also provided a financial guarantee to an independent third party in a maximum and total amount of RMB318,000,000 as set forth in note 24. Historical Financial Information have been prepared on going concern basis because Shanghai Guxin, unconditionally up to date of disposal of Qingdao Guxin, and China Smarter Energy Holdings Limited (“the Company”), on the condition that the acquisition of Qingdao Guxin by the Company was successful, have undertaken to provide financial support, including an undertaking to provide financial support to the Target Group when its debts or financial guarantee obligation fall due. Accordingly, the directors of Qingdao Guxin believe that Target Group can meet its all financial obligations as they fall due in the near future.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, Qingdao Guxin has consistently applied the HKFRSs, which are effective for the accounting period beginning on 1 April 2016 throughout the Relevant Periods.

New and amendments to HKFRS issued but not yet effective

Qindao Guxin has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Target Group are described below:

- All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Qingdao Guxin’s financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may not have a material impact to Qingdao Guxin’s financial assets.

However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the director of Qingdao Guxin performs a detailed review.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The director of the Qingdao Guxin is in the process of assessing the potential impacts of HKFRS 15 in respect of the contracts with customer, in particular, Jinchang Disheng's electricity sales contracts. Upon application of HKFRS 15, Jinchang Disheng is required to evaluate the terms and conditions of and the counterparties to the contracts which may impact revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Target Group performs a detail review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the financial statements.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 April 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Qingdao Guxin's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The director of the Qingdao Guxin anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the consolidated financial statements of the Group in future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Qingdao Guxin takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 *Leases* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are recognised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of Qingdao Guxin and its subsidiary. Control is achieved when Qingdao Guxin:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Qingdao Guxin reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when Qingdao Guxin obtains control over the subsidiary and ceases when Qingdao Guxin loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date Qingdao Guxin gains control until the date when Qingdao Guxin ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Qingdao Guxin's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Qingdao Guxin are eliminated in full on consolidation.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by Qingdao Guxin, liabilities incurred by Qingdao Guxin to the former owners of the acquiree and the equity interests issued by Qingdao Guxin in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that: deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Merger accounting for business combination involving businesses under common control

The Historical Financial Information incorporates the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter periods, regardless of the date of the common control combination.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of Qingdao Guxin's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit (or group of cash-generating units) may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for electricity supplied in the normal course of business.

Revenue arising from the sale of electricity is recognised in the accounting period when electricity is generated and transmitted. Tariff subsidy represents subsidy received and receivable from the government authorities in respect of Qingdao Guxin's solar power generation business. Tariff subsidy is recognised at its fair value where there is a reasonable assurance that the additional tariff will be received and Qingdao Guxin will comply with all attached conditions, if any.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Qingdao Guxin and the amount of the income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Qingdao Guxin as lessee

Assets held under finance leases are initially recognised as assets of Qingdao Guxin at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with Qingdao Guxin's general policy on borrowing costs.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “loss before tax” as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Qingdao Guxin’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Qingdao Guxin expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Equipment

Equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The items of equipment are depreciated on a straight-line basis over the following estimated useful lives after taking into account the residual values as follow:

Office equipment	3 years
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An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Solar power plant

Completed solar power plant, being solar power plants held for the generation of electricity income, are stated at in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The items of solar power plant are depreciated on a straight-line basis over the following estimated useful lives after taking into account the residual values as follow:

Solar power plant	20 years
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Completed solar power plants are derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of completed solar power plant is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on tangible assets

At the end of each reporting period, Qingdao Guxin reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Qingdao Guxin estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when Qingdao Guxin has a present obligation (legal or constructive) as a result of a past event, it is probable that Qingdao Guxin will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified 'financial asset designated at fair value through profit or loss ("FVTPL")' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including restricted deposit, amount due from a fellow subsidiary and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Financial asset designated at FVTPL

Financial asset are classified as at FVTPL when the financial asset is designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial asset at FVTPL is stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses. Fair value is determined in the manner described in note 30.

Impairment of financial assets

Financial assets, other than that at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments***Classification as debt or equity***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to immediate holding company, obligation under finance lease and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition

Qingdao Guxin derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Qingdao Guxin's accounting policies, which are described in note 4, the director are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Revenue recognition on tariff subsidy on sales of electricity

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

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

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

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

Pursuant to the New Tariff Notice, a set of standardised procedures for the settlement of the tariff subsidy has come into force since 2013 and approvals for the registration in the Reusable Energy Tariff Subsidy Catalogue (可再生能源電價附加資金補助目錄)(the “Catalogue”) on a project-by-project basis are required before the allocation of funds to the State Grid Gansu Electric Power Company (國家電網甘肅省電力公司)(the “State Grid Company”), which then would make settlement to the Target Group. Registrations to the Catalogue is an ongoing process and the Catalogue is opened for registrations on a batch by batch basis.

During the period from 23 June 2015 to the period ended 31 March 2016 and from 1 April 2016 to 31 December 2016, revenue on tariff adjustments on electricity sales of RMB48,291,000 and RMB46,652,000 was recognised from the State Grid Company in the PRC.

Prior to 23 August 2016, in the opinion of the director of Qingdao Guxin, the recognition of accrued revenue on tariff subsidy is proper based on their judgement. The operating solar power plant had been assessed by the director of Qingdao Guxin, assisted by the PRC legal counsel, which was qualified for, and had met, all the requirements and conditions according to the requirements and conditions for the registration in the Catalogue. The director of the Qingdao Guxin is confident that the operating power plants was able to be registered in the Catalogue in due course and the accrued revenue on tariff subsidy was fully recoverable but only subject to timing of allocation of funds from the government, after considering that there are no bad debt experiences with the State Grid Company in the past and the tariff subsidy is fully funded by the PRC government.

On 24 August 2016, the solar power plant held by Qingdao Guxin has been successfully registered to the Catalogue. Since then, the director of Qingdao Guxin assessed that, revenue recognition or tariff subsidy on sales of electricity was no longer a critical accounting judgement, since from industry practice, once an entity is successfully registered in the Catalogue, the allocation of funds from the government will be of high certainty, despite the fact that the exact time of allocation is yet to be confirmed by the government, subject to only formality, the management of Qingdao Guxin expected to recover the allocation of fund in foreseeable future and consider the effect of the time value of money is immaterial.

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

Valuation assessment on the financial guarantee contract

For the fair value of the financial guarantee contract provided to the guaranteed counterparty, assumptions are made by the management of Qingdao Guxin at date of initial recognition, based on the guaranteed amount and the credit spread of the guaranteed counterparties, of which was determined according to their estimated default probability with reference to their credit quality. The credit spread and risk of default were, therefore, of significant estimation uncertainty. If the risk of default was significantly different from the estimated default probability, the fair value of the financial guarantee contracts at date of initial recognition would be significantly changed. The financial guarantee contracts are subsequently measured at the higher of the amount of obligation under the contract as determined in accordance with HKAS 37 and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

As at 31 March 2016 and 31 December 2016, the carrying amount of financial guarantee obligation was amounted to RMB9,891,000 and RMB9,361,000 respectively.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Target Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2016 and 31 December 2016, the carrying amount of goodwill is RMB23,058,000 and RMB23,058,000 (without accumulated impairment loss). Details of the impairment testing are disclosed in note 13.

6. REVENUE AND SEGMENT INFORMATION

The Target Group has been operating in one operating and reportable segment, operation in solar power plant. The management of the Target Group, being the director who is the chief operating decision maker, to make decisions based on the Historical Financial Information of the Target Group prepared in conformity with HKFRSs about resources allocation and performance assessment.

No analysis of the Target Group's assets and liabilities by operating and reportable segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Target Group's non-current assets, excluding goodwill amounted to RMB851,468,000 and RMB804,555,000 as at 31 March 2016 and 31 December 2016 and are all located in the PRC.

An analysis of the Target Group's revenue is as follows:

	For the period from 23/06/2015 to 31/03/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
Sales of electricity	18,005	12,259
Tariff subsidy (<i>note</i>)	<u>48,291</u>	<u>46,652</u>
	<u>66,296</u>	<u>58,911</u>

Note: The amount represented the tariff subsidy which were approximately 73% for the period from 23 June 2015 to 31 March 2016 and 79% for the period from 1 April 2016 to 31 December 2016 of the total electricity sales in the PRC.

The amount is subject to the allocation of funds by the relevant government authorities and was determined in accordance with the on-grid unit tariff rate approval document and the electricity supply contracts.

Information about major customers

100% of the revenue of the Target Group were derived from the State Grid Company (including tariff subsidy which was funded by the relevant PRC government authorities of which will be first allocated to the State Grid Company and then remit to Jinchang Disheng) during the period ended 31 March 2016 and 31 December 2016 under the relevant government policies.

7. OTHER GAINS AND LOSSES

	For the period from 23/06/2015 to 31/03/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
Release of financial guarantee obligation (<i>note 24</i>)	530	530
Net loss on early redemption of obligation under finance lease (<i>note 23</i>)	–	(4,160)
Others	<u>(235)</u>	<u>5</u>
	<u>295</u>	<u>(3,625)</u>

8. FINANCE COSTS

	For the period from 23/06/2015 to 31/03/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
Interest on obligation under finance lease	35,805	125
Interest on bank borrowing	61	16,831
Interest on other borrowing	<u>6,478</u>	<u>7,071</u>
	<u>42,344</u>	<u>24,027</u>

9. LOSS BEFORE TAXATION

	For the period from 23/06/2015 to 31/03/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
Loss for the period has been arrived at after charging (crediting):		
Staff cost (<i>note</i>)	—	—
Director's emolument (<i>note</i>)	—	—
Auditor's remuneration	37	47
Depreciation of equipment	31	29
Depreciation of solar power plant	<u>30,772</u>	<u>30,772</u>

Note: The staff cost, director's remuneration and minimum lease payments in respect of office premise were borne by Shanghai Guxin without recharging the Target Group throughout the Relevant Periods. For the services provided by the director of Qingdao Guxin and the staff of Shanghai Guxin to the Target Group, their remunerations were paid by Shanghai Guxin without recharging the Target Group. No apportionment has been made as the director of Qingdao Guxin was of the opinion that it was impracticable to apportion such remuneration between their services provided to the Target Group and other group companies of Shanghai Guxin.

10. INCOME TAX CREDIT

	For the period from 23/06/2015 to 31/03/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	—	—
Deferred tax credit (<i>note 25</i>)	<u>86</u>	<u>86</u>
	<u>86</u>	<u>86</u>

Qingdao Guxin and its subsidiary Jinchang Disheng were established in the PRC and were subject to PRC Enterprise Income Tax rate of 25%.

In addition, Jinchang Disheng, being enterprises engaged in public infrastructure project, under the PRC Tax Law and its relevant regulations, was entitled to tax holidays of 3-year full exemption followed by 3-year 50% exemption commencing from its respective years in which its first operating incomes were derived in the period ended 31 March 2014.

The income tax credit for the period can be reconciled to the loss before tax per consolidated statements of profit or loss and other comprehensive expense as follows:

	For the period from 23/06/2015 to 31/03/2016 RMB'000	For the period from 01/04/2016 to 31/12/2016 RMB'000
Loss before tax	(14,142)	(6,921)
Tax credit at the PRC EIT rate of 25%	(3,536)	(1,730)
Tax effect of expense not deductible for tax purpose	864	7
Tax effect of deductible temporary difference not recognised	656	1,547
Tax effect of tax losses not recognised	1,930	90
Income tax credit for the period	<u>(86)</u>	<u>(86)</u>

11. DIVIDEND

No dividend was paid or proposed during the Relevant Periods.

12. SOLAR POWER PLANT

	Completed Solar Power Plant RMB'000
Cost	
Merger accounting combination arising from acquisition of Jinchang Disheng on 23 June 2015 (<i>note 14</i>)	<u>808,370</u>
Balance at 31 March 2016 and 31 December 2016	<u>808,370</u>
Accumulated depreciation	
Merger accounting combination arising from acquisition of Jinchang Disheng on 23 June 2015 (<i>note 14</i>)	–
Provided for the period	<u>30,772</u>
Balance at 31 March 2016	30,772
Provided for the period	<u>30,772</u>
Balance at 31 December 2016	<u>61,544</u>
Carrying values	
Balance at 31 March 2016	<u><u>777,598</u></u>
Balance at 31 December 2016	<u><u>746,826</u></u>

The solar power plant held by Jinchang Disheng was situated in a land which was allocated by the relevant government authorities at nil consideration. Jinchang Disheng owns the land use right of such land.

The director of Qingdao Guxin, assisted by a firm of independent professional valuers, determined that the fair value of such allocated land was insignificant upon merger accounting combination as a result of the acquisition of Jinchang Disheng on 23 June 2015, details of which are set out in note 14.

Certain component of the solar power plant (representing the machineries and equipment) had been pledged as securities for securing a bank borrowing obtained by the Target Group. Details of which are set out in note 28.

13. GOODWILL

RMB'000

Merger accounting combination arising from acquisition of Jinchang Disheng on 23 June 2015 (<i>note 14</i>)	23,058
Balance at 31 March 2016 and 31 December 2016	<u>23,058</u>

Impairment testing on goodwill

During the period ended 31 March 2016 and 31 December 2016, management of the Qingdao Guxin determines that there is no impairment of its CGU containing goodwill in relation to the operating of solar power plant in Gansu province, the PRC.

The recoverable amount of the solar power plant operation is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 10.16% per annum as at both 31 March 2016 and 31 December 2016. The cash flows beyond the five-year period are extrapolated using declining growth rate from 4.75% to 2% till year 2024, while since then a steady decline rate from -2% to -1% is adopted till year 2033, which is the end of the estimated useful life of the solar power plant. The growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The growth rate adopted till year 2024 is considered appropriate by the management of the Target Group in view of their expectation that electricity generation from the solar power plant would reach its full capacity by year 2024, while the management of the Target Group considered appropriate to adopt a decline rate from -2.14% to -1% after year 2024 due to their expected decline in operational output arising from the expected module degradation.

14. INVESTMENT IN A SUBSIDIARY

During the Relevant Periods and as at the date of this report, Qingdao Guxin has direct equity interest in Jinchang Disheng:

Name of subsidiary	Place and date of establishment	Registered and paid-in capital	Shareholding/equity interest attributable to Qingdao Guxin as at			Principal activity
			31/3/2016	31/12/2016	this report	
Jinchang Disheng (<i>note</i>)	The PRC, 11 November 2013	RMB306,900,000	100%	100%	100%	Operation of a solar power plant

Note: Qingdao Guxin is a limited liability company and has adopted 31 December as its financial year end date.

The statutory financial statements of Jinchang Disheng for the year ended 31 December 2015 was prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by Rui Hua, Certified Public Accountants LLP (瑞華會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.

No PRC statutory financial statement have been issued for Qingdao Guxin since its date of establishment as there are no statutory requirements for it to issue statutory audited financial statements.

No PRC statutory financial statements for the year ended 31 December 2016 have been issued for Jinchang Disheng as there are no statutory requirements for it to issue statutory audited financial statements.

Merger accounting combination arising from acquisition of a subsidiary by Shanghai Guxin

As detailed in note 2, although the Reorganisation was completed on 3 March 2016, under the principle of merger accounting, assets and liabilities of Jinchang Disheng was included to the Historical Financial Information since the date of which it and Qingdao Guxin first come under common control of Shanghai Guxin, the date when Shanghai Disheng acquired the entire 100% equity interest of Jinchang Disheng from independent third parties.

The fair value of assets acquired and liabilities of Jinchang Disheng assumed by the Target Group on date of merger combination were as follows:

	<i>RMB'000</i>
Equipment	87
Solar power plant (<i>note i</i>)	808,370
Trade and other receivables (<i>note ii</i>)	82,309
Value-added tax recoverable	83,146
Bank balances and cash	54,388
Trade and other payables	(179,647)
Obligation under finance lease	(501,983)
Financial guarantee obligation	(10,421)
Bank and other borrowings	(50,000)
Deferred tax liability	<u>(2,407)</u>
Net assets acquired	<u><u>283,842</u></u>
Consideration paid by Shanghai Guxin	306,900
Less: net assets acquired	<u>(283,842)</u>
Goodwill arising on acquisition from independent third parties (<i>note iii</i>)	<u><u>23,058</u></u>
Bank balance and cash assumed on acquisition from independent third parties	<u><u>54,388</u></u>

Notes:

- (i) The solar power plant is situated at a land which was allocated by the PRC government at nil consideration. Jinchang Disheng owns the land use right of such land. Upon acquisition by Shanghai Guxin, the management of the Target Group assessed that, with reference to the purchase price allocation report prepared a firm of independent professional valuers, the fair value of the land was insignificant. Accordingly, no prepaid lease payment in respect of the land use right was recorded on the Historical Financial Information of the Target Group.
- (ii) The fair value of trade and other receivables at the date of acquisition from independent third parties, amounted to RMB82,309,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB82,309,000 at the date of acquisition from independent third parties.
- (iii) Goodwill arose in the acquisition of the entire 100% equity interest in Jinchang Disheng because the consideration paid by Shanghai Guxin effectively included the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Jinchang Disheng. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

15. OTHER ASSETS

(A) *Value-added tax recoverable*

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Value-added tax recoverable	<u>77,701</u>	<u>68,768</u>
Analysed for reporting purposes as:-		
Non-current assets	64,038	49,573
Current assets	<u>13,663</u>	<u>19,195</u>
	<u>77,701</u>	<u>68,768</u>

Value-added tax ("VAT") recoverable was derived from the development and construction of the solar power plant, representing 17% of the cost of construction and 6% of the consultancy fee entitled as the cost of development of the solar power plant incurred. Pursuant to the relevant rules and regulation in the PRC, VAT input can be utilised to offset against VAT output. At each period end date, the management of Target Group estimated the amount expected to be utilised for offset, making reference to the level of sales of electricity in the coming years of which VAT output is calculated.

The amount expected by the management of the Target Group to be utilised within one year after the end of the reporting period was included as current assets, accordingly.

(B) *Restricted deposit and prepayment of financial guarantee expense*

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Restricted deposit (<i>note i</i>)	800	990
Prepayment of financial guarantee expense (<i>note ii</i>)	<u>9,992</u>	<u>9,145</u>
	<u>10,792</u>	<u>10,135</u>
Analysed for reporting purposes as:-		
Non-current assets	9,776	8,129
Current assets (included in trade and other receivables in note 16)	<u>1,016</u>	<u>2,006</u>
	<u>10,792</u>	<u>10,135</u>

Notes:

- (i) Restricted deposit represents certain percentage of the other borrowing (included in bank and other borrowings in note 22) required by the licensed financial institution to be deposited into a designated bank account by the Target Group, and such amount was restricted for withdrawal and would be released upon the maturity and repayment of the other borrowing.
- (ii) On 31 March 2016, an agreement had been entered into between an independent third party and Jinchang Disheng, pursuant to which the independent third party would act as a guarantor in favor of the bank for the bank borrowing raised by Jinchang Disheng, over a guaranteed period from 31 March 2016 to 31 January 2026, while Jinchang Disheng would pay a financial guarantee service fee of RMB9,992,000 to the independent third party.

Such amount was accrued as other payable as at 31 March 2016 and was subsequently paid during the period ended 31 December 2016. The amount would be amortised to profit or loss as financial guarantee expense over the guaranteed period.

16. TRADE AND OTHER RECEIVABLES

	At	At
	31/03/2016	31/12/2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	5,319	–
Accrued revenue on tariff subsidy	<u>131,305</u>	<u>133,781</u>
Total trade receivables and accrued revenue on tariff subsidy (<i>note</i>)	<u>136,624</u>	<u>133,781</u>
Other receivables		
Restricted deposit (<i>note 15(i)</i>)	–	990
Prepayment of financial guarantee fee expenses (<i>note 15(ii)</i>)	1,016	1,016
Others	<u>158</u>	<u>145</u>
	<u>1,174</u>	<u>2,151</u>
	<u><u>137,798</u></u>	<u><u>135,932</u></u>

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

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
0 to 30 days	11,091	3,008
31 to 60 days	6,709	4,886
61 to 90 days	4,370	9,155
91 to 120 days	3,918	8,087
Over 120 days	<u>110,536</u>	<u>108,645</u>
	<u>136,624</u>	<u>133,781</u>

Note: The Target Group's trade receivables and accrued revenue on tariff subsidy from the sales of electricity are mainly receivables from the State Grid Company. Generally, the trade receivables are due within 30 days from the date of billing, except for collection of the accrued revenue on tariff subsidy, representing a range of 73% to 93% of total electricity sales, which is subject to settlement by the State Grid Company upon finalisation of the allocation of funds by relevant government authorities to the State Grid Company.

The Target Group's trade receivables and accrued revenue on tariff subsidy resulting from the solar power plan operation had been pledged as securities for securing a bank borrowing obtained by the Target Group. Details of which are set out in note 28.

17. AMOUNT DUE FROM A FELLOW SUBSIDIARY

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Amount due from a fellow subsidiary	<u>–</u>	<u>36,000</u>

The amount as at 31 December 2016 is non-trade in nature, unsecured, interest-free and repayable on demand. Such amount was fully repaid to the Target Group subsequently 20 March 2017.

18. FINANCIAL ASSET DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Financial product – at fair value	<u>–</u>	<u>30,000</u>

On 28 June 2016, the Target Group acquired an unlisted financial product designated at FVTPL from a licensed financial institution at cost of RMB30,000,000. The principal amount and investment return are unsecured, unguaranteed and carry at a variable rate of return based on the performance of underlying investment portfolio.

The director of the Target Group assessed that the change of fair value of the financial product is immaterial, therefore, such amount is not recognised in profit or loss for the period from 28 June 2016 to 31 December 2016. Details of the fair value measurement are set out in note 30(c).

19. BANK BALANCES AND CASH

Bank balances and cash of the Target Group comprise cash and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at a market rate of ranging from 0.30% to 0.35% per annum for the period ended 31 March 2016 and 0.30% per annum for the period ended 31 December 2016, respectively.

20. TRADE AND OTHER PAYABLES

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Trade payables	1,160	4,375
Payable of engineering, procurement and construction (“EPC”) of solar power plant (<i>note i</i>)	1,524	1,524
Interest payable	–	982
Other taxes payable	592	–
Payable for financial guarantee expenses (<i>note 15 (ii)</i>)	9,992	–
Others	<u>1,274</u>	<u>1,722</u>
	<u>14,542</u>	<u>8,603</u>

Notes:

- (i) Amount represented payables incurred for EPC of the solar power plant held by Jinchang Disheng. The amount would be repayable within 12 months after the end of the reporting year and such amount was therefore classified as current liabilities at the end of the reporting period.

The credit period for the trade payable, representing the cost payable for the operation and maintenance of the solar power plant, is approximately 120 days throughout the Relevant Periods.

The following is an aged analysis of the trade payable presented based on the invoice date at the end of the reporting period:

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
0 to 30 days	384	468
31 to 60 days	415	413
61 to 90 days	361	398
91 to 120 days	–	407
Over 120 days	<u>–</u>	<u>2,689</u>
	<u>1,160</u>	<u>4,375</u>

21. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Amount due to immediate holding company	<u>451,586</u>	<u>440,822</u>

Included in the amount was a consideration payment of RMB306,900,000 payable by Qingdao Guxin to Shanghai Guxin as a result of the Reorganisation. The consideration payable was paid subsequent to the end of the reporting period on 10 March 2017. All the balances at the end of each reporting period were non-trade in nature, unsecured, interest-free and repayable on demand.

22. BANK AND OTHER BORROWINGS

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Guaranteed and secured:		
bank borrowing (<i>note i</i>)	499,686	500,298
Unguaranteed and secured:		
other borrowing (<i>note ii</i>)	84,483	105,392
Unguaranteed and unsecured:		
other borrowings (<i>note iii</i>)	<u>2,200</u>	<u>38,200</u>
	<u>586,369</u>	<u>643,890</u>
Carrying amount repayable:		
Within one year	32,609	196,450
More than one year, but not exceeding two years	132,640	52,640
More than two year, but not exceeding five years	157,920	157,920
More than five years	<u>263,200</u>	<u>236,880</u>
	586,369	643,890
Less: Amounts due within one year	<u>(32,609)</u>	<u>(196,450)</u>
Amounts shown under non-current liabilities	<u>553,760</u>	<u>447,440</u>

Notes:

- (i) Bank borrowing carried a fixed interest rate of 4.41% per annum over the Relevant Periods. Details of assets pledged for obtaining the bank borrowing were set out in note 28. The amount was guaranteed by an independent third party for a guarantee fee of RMB9,992,000 paid by Jinchang Disheng. Details of which are set out in note 15.
- (ii) Other borrowing carried a fixed interest rate of 14% per annum for the period ended 31 March 2016 and the interest rate was repriced to 10% per annum on 1 April 2016. The other borrowing is secured by restricted deposit. Details of which are set out in note 15.
- (iii) The other borrowing is due to an independent third party, which is unsecured, interest-free and repayable on demand.

23. OBLIGATION UNDER FINANCE LEASE

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Analysed for reporting purposes as:		
Current liabilities	103,588	–
Non-current liabilities	<u>373,394</u>	<u>–</u>
	<u>476,982</u>	<u>–</u>

Certain of the Target Group's machineries and equipment classified as of solar power plant was made under finance leases. The lease term is 10 years since 15 August 2014 and the corresponding effective interest rate is ranging 11.02% to 11.52% for the period from 23 June 2015 to 31 March 2016 and 11.02% for the period from 1 April 2016 to 31 December 2016. The obligation under finance lease is carried at a variable interest rate which was based on the benchmark interest rate issued by the People's Bank of China ("PBOC"). Interest was reset every three months.

On 1 April 2016, the management of Qingdao Guxin determined to early redeem the obligation under finance lease for a cash repayment of RMB474,346,000, the carrying amount of the financial lease obligation on date of early redemption was RMB476,724,000. The early redemption of the obligation under finance lease, after taking into account of the penalty charge of RMB6,538,000, resulted in a net loss of RMB4,160,000 charged to profit or loss.

	Minimum Lease payments		Present value of minimum lease payments	
	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Repayment on demand or within one year	109,067	–	103,588	–
In more than one year but within two years	86,568	–	73,591	–
In more than two years but within five years	269,373	–	186,004	–
In more than five years	<u>238,207</u>	<u>–</u>	<u>113,799</u>	<u>–</u>
	703,215	–	476,982	–
Less: future finance charges	<u>(226,233)</u>	<u>–</u>	<u>n/a</u>	<u>–</u>
Present value of lease obligation	<u>476,982</u>	<u>–</u>	<u>476,982</u>	<u>–</u>

24. FINANCIAL GUARANTEE OBLIGATION

	Financial guarantee contract RMB'000
Arising on acquisition of Jinchang Disheng from independent third parties on 23 June 2015 (<i>note 14</i>)	<u>10,421</u>
Release for the period	<u>(530)</u>
At 31 March 2016	<u>9,891</u>
Release for the period	<u>(530)</u>
At 31 December 2016	<u><u>9,361</u></u>

Prior to the acquisition of Jinchang Disheng by Shanghai Guxin, Jinchang Disheng provided a financial guarantee in favor of a bank enabling the independent third party to obtain a bank borrowing secured by its assets over the period of 15 years maturing in 2030. The financial guarantee contract provided by Jinchang Disheng was requested by Shenzhen Tongce (subsequently renamed as Ningbo Tongce), the former parent company of the Project Company for its own reasons. The maximum and total amount of borrowing utilised by the independent third party were of RMB318,000,000 as at 31 March 2015 and 2016, and 31 December 2016, respectively.

25. DEFERRED TAX LIABILITY

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Deferred tax liability	<u><u>2,321</u></u>	<u><u>2,235</u></u>

The following is the deferred tax liability recognised and movements thereon during the current and prior period.

	Valuation of Long- lived assets RMB'000
Arising on acquisition of Jinchang Disheng from independent third parties on 23 June 2015 (<i>note 14</i>)	2,407
Credit to profit or loss	<u>(86)</u>
At 31 March 2016	2,321
Credit to profit or loss	<u>(86)</u>
At 31 December 2016	<u><u>2,235</u></u>

As at period ended 31 March 2016 and 31 December 2016, the Target Group has estimated unrecognised tax losses of RMB28,576,000 and RMB28,936,000 available for offset against future profits. No deferred tax asset has been recognised in respect of above tax losses due to the unpredictability of future profit streams. Tax losses will be carried forward and expired in the following years:

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
2017	—	—
2018	—	—
2019	—	—
2020	25,444	25,444
2021	3,132	3,132
2022	<u>—</u>	<u>360</u>
	<u><u>28,576</u></u>	<u><u>28,936</u></u>

As at 31 March 2016 and 31 December 2016, the Target Group has deductible temporary differences of RMB15,592,000 and RMB21,780,000. No deferred tax assets has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

26. PAID-IN CAPITAL

Paid-in capital as at 23 June 2015 represented the paid-in capital of Jinchang Disheng, arising from the merger accounting combination as detailed in notes 2 and 14.

Pain-in capital as at 31 March 2016 and 31 December 2016 represented the paid-in capital of Qingdao Guxin, since the Reorganisation had been completed on 3 March 2016, the paid-in capital of Qingdao Guxin was nil as at 31 March 2016 and 31 December 2016.

The immediate holding company of the Company, Shanghai Guxin, capitalised the amount due to Shanghai Guxin of RMB306,900,000 as capital contribution subsequent to the end of the relevant period on 10 March 2017.

27. INFORMATION OF THE STATEMENTS OF FINANCIAL POSITION OF QINGDAO GUXIN

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	306,900	306,900
	<u>306,900</u>	<u>306,900</u>
CURRENT ASSETS		
Amount due from a fellow subsidiary	–	36,000
Bank balances and cash	–	1
	<u>–</u>	<u>36,001</u>
CURRENT LIABILITY		
Other payables	–	7
Amounts due to immediate holding company	306,900	306,900
Bank and other borrowing	–	36,000
	<u>306,900</u>	<u>342,907</u>
NET CURRENT LIABILITIES	<u>(306,900)</u>	<u>(306,906)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>–</u>	<u>(6)</u>
CAPITAL AND RESERVES		
Paid-in capital	–	–
Accumulated losses	–	(6)
TOTAL EQUITY	<u>–</u>	<u>(6)</u>
	<u>–</u>	<u>(6)</u>

28. PLEDGE OF ASSETS

At the end of each reporting period, Qingdao Guxin had pledged its 100% equity interests in Jinchang Disheng to a bank in order to obtain a bank borrowing.

In addition, the following assets are pledged in respect of the Target Group's bank and other borrowings.

	31/03/2016	31/12/2016
	<i>RMB'000</i>	<i>RMB'000</i>
Restricted deposit	800	990
Trade receivables and accrued revenue on tariff subsidy	136,624	133,781
Machineries and equipment classified as solar power plant	<u>524,879</u>	<u>504,108</u>
	<u><u>662,303</u></u>	<u><u>638,879</u></u>

29. CAPITAL RISK MANAGEMENT

Qingdao Guxin manages its capital to ensure Qingdao Guxin will be able to continue as a going concern while maximising the return to the owner of Qingdao Guxin through the optimisation of the debt and equity balance. Qingdao Guxin's overall strategy remains unchanged from the date of establishment.

The capital structure of Qingdao Guxin consists of net debts, which includes bank and other borrowings disclosed in note 22, net of cash and cash equivalents, attributable to owner of Qingdao Guxin, comprising paid in capital and reserves.

The director of Qingdao Guxin reviews the capital structure on a continuous basis. As part of this review, the director considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director, Qingdao Guxin will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts or redemption of existing debts.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31/03/2016	31/12/2016
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Trade and other receivables	136,782	134,916
Cash and cash equivalents	501,648	35,280
Amount due from a fellow subsidiary	–	36,000
Restricted deposit classified as non-current assets	800	–
	639,230	206,196
Financial asset designated at FVTPL	–	30,000
	<u>639,230</u>	<u>236,196</u>
Financial liabilities		
Trade and other payables	13,950	8,603
Bank and other borrowings	586,369	643,890
Obligation under financial lease	476,982	–
Amount due to immediate holding company	451,586	440,822
	<u>1,528,887</u>	<u>1,093,315</u>

(b) Financial risk management objectives and policies

Interest risk

Qingdao Guxin is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings. Qingdao Guxin currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Qingdao Guxin is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and obligation under finance lease. The director of Qingdao Guxin considers that Qingdao Guxin's exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for obligation under finance lease at the end of each reporting period and the stipulated changes taking place at the beginning of the financial period and held constant throughout the respective reporting period. Bank balances are excluded from sensitivity analysis as the director of Qingdao Guxin considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 100 basis points higher and all other variables were held constant, the post tax loss for the period ended 31 March 2016 would have been increased by RMB4,770,000, while the post-tax loss for the period ended 31 December 2016 would be unchanged.

The post-tax profit for the period would be increased by the same amount as mentioned above if interest rate on obligation under finance lease had been 100 basis points lower and all other variables were held constant.

Credit risk

As at the end of each reporting period, Qingdao Guxin's maximum exposure to credit risk which would cause a financial loss to Qingdao Guxin due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the director of Qingdao Guxin has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. Qingdao Guxin reviews the recoverable amount of each individual debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of Qingdao Guxin considers that Qingdao Guxin's credit risk is significantly reduced.

As at each 31 March 2016 and 31 December 2016, 100% of the total trade receivables was due from the State Grid Company. The Target Group is exposed to the concentration of credit risk to the State Grid Company (including tariff subsidy which was funded by the relevant PRC government authorities, of which will be first allocated to the State Grid Company and then remit to Jinchang Disheng). As Jinchang Disheng has been successfully registered to the Catalogue on 24 August 2016, the management assessed the credit risk is significantly reduced.

Qingdao Guxin has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are state-owned banks with good reputation or banks with good credit rating assigned by international credit-rating agencies and with good reputation.

Liquidity risk

The Target Group's current liabilities exceeded its total current assets by RMB398,829,000 as at 31 December 2016. In addition, the Target Group also provided a financial guarantee to an independent third party in a maximum and total amount of RMB318,000,000 as set forth in note 24. Historical Financial Information have been prepared on going concern basis because Shanghai Guxin, unconditionally, and the Company, on the condition that the acquisition of Qingdao Guxin by the Company was successful, have undertaken to provide financial support, including an undertaking to provide financial support to the Target Group when its debts fell due. Accordingly, the Target Group can meet its all financial obligations as they fall due in the near future.

In the management of the liquidity risk, the director of Qingdao Guxin monitors and maintains a level of cash and cash equivalents deemed adequate by the director to finance Qingdao Guxin's operations and mitigate the effects of fluctuations in cash flows. The director monitors the utilisation of finance leases and other borrowings.

The following table details Jinchang Disheng's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Jinchang Disheng can be required to pay. The table includes both interest and principal cash flow.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Weighted average interest rate per annum %	On demand or less than 1 months RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amounts RMB'000
As at 31 March 2016								
Trade and other payables		13,950	-	-	-	-	13,950	13,950
Bank and other borrowings	5.71%	4,944	5,349	50,621	361,299	293,232	715,645	586,369
Amount due to immediate holding company		451,586	-	-	-	-	451,586	451,586
Obligation under finance lease	11.02%	-	23,029	86,039	355,941	238,207	703,216	476,982
Financial guarantee		-	-	-	-	318,000	318,000	-
		<u>470,480</u>	<u>28,578</u>	<u>136,660</u>	<u>717,240</u>	<u>849,439</u>	<u>2,202,397</u>	<u>1,528,887</u>

	Weighted average interest rate per annum %	On demand or less than 1 months RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amounts RMB'000
As at 31 December 2016								
Trade and other payables		8,603	-	-	-	-	8,603	8,603
Bank and other borrowings	5.01%	40,896	5,027	169,861	270,213	258,253	744,250	643,890
Amount due to immediate holding company		440,822	-	-	-	-	440,822	440,822
Financial guarantee		-	-	-	-	318,000	318,000	-
		<u>490,321</u>	<u>5,027</u>	<u>169,861</u>	<u>270,213</u>	<u>576,253</u>	<u>1,511,675</u>	<u>1,093,315</u>

Market risk

Other price risk

The Target Group is exposed to financial asset designated at FVTPL price risk in relation to its financial asset designated at FVTPL.

The Target Group currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to financial asset designated at FVTPL price risks at the reporting date.

If the price of the financial asset designated at FVTPL had been 5% higher/lower,

- post-tax profit for the year ended 31 December 2016 would have increased/decreased by RMB1,500,000 as a result of the changes in fair value of financial asset designated at FVTPL.

(c) Fair value measurement of financial instrument

This note provides information about how the Target Group determines fair value of the financial asset.

Fair value measurement recognised in the statement of financial position that is measured at fair value on a recurring basis

Financial asset is measured at fair value at the end of each reporting period. The following table gives information about how the fair value of the financial asset is determined.

Financial Assets	Classified as	Fair value as at 31/03/2016 RMB'000	Fair value as at 31/12/2016 RMB'000	Fair value hierarchy	Basis of fair value measurement/valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial product	Financial asset designated at FVTPL	N/A	Assets – 30,000	Level 3	Discounted cash flow – Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses.	N/A	N/A

The following table represents the changes in Level 3 financial asset designated at FVTPL during the Relevant Period.

Nine months ended 31 December 2016

	Financial asset designated at FVTPL RMB'000
Balance at 31 March 2016	–
Addition	30,000
Total loss/gain recognised in profit or loss	–
Balance at 31 December 2016	<u>30,000</u>

31. RELATED PARTY DISCLOSURE

(a) Related party transactions

Save as disclosed elsewhere in the Historical Financial Information, there was no related party transactions carried out over the Relevant Periods.

(b) Compensation of key management personnel

The remuneration paid to key management personnel, which represents the director of the Target Group during the year, was borne by Shanghai Guxin, the immediate holding company.

32. CONTINGENT LIABILITY

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Financial guarantee provided in favor of a bank in respect of a bank borrowing granted to an independent third party		
Total guaranteed amounts	318,000	318,000
Less: amounts recognised as financial guarantee obligation (note 24)	<u>(9,891)</u>	<u>(9,361)</u>
Unrecognised amount	<u>308,109</u>	<u>308,639</u>

B. DIRECTOR'S REMUNERATION

Under the arrangement currently in force, there is no director's remuneration for the year ended 31 March 2017, as the director's remuneration is all borne by the immediate holding company of Qingdao Guxin.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, Qingdao Guxin and Jinchang Disheng comprising the Target Group have been prepared in respect of any period subsequent to 31 December 2016.

D. EVENT AFTER END OF REPORTING PERIOD

Save as disclosed elsewhere in the Historical Financial Information, there was no other significant event happened after the end of the relevant period.

The following is the text of a report set out on pages III-1 to III-54, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

Deloitte.**德勤**

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED (THE "COMPANY")

Introduction

We report on the historical financial information of Jinchang Disheng Solar Energy Generation Company Limited* (金昌迪生太陽能發電有限公司) ("Jinchang Disheng" or the "Project Company") set out on pages III-4 to III-53, which comprises the statements of financial position as at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the period from 11 November 2013 (date of establishment) to the period ended 31 March 2014, the two years ended 31 March 2015 and 2016, and the nine months ended 31 December 2016 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-53 forms an integral part of this report, which has been prepared for inclusion in the circular of the Company dated 30 June 2017 (the "Circular") in connection with the major transaction in relation to acquisition of entire equity interest in Qingdao Guxin Electricity Investment Company Limited, the immediate holding company of Jinchang Disheng.

Director's responsibility for the Historical Financial Information

The director of Jinchang Disheng is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the director of Jinchang Disheng determines is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

* English name is for identification purpose only.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of Jinchang Disheng, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of Jinchang Disheng as at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016 and of Jinchang Disheng's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of Jinchang Disheng which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 31 December 2015 and other explanatory information (the "Stub Period Comparative Financial Information"). The director of Jinchang Disheng is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review.

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page III-4 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by Jinchang Disheng in respect of the Relevant Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 June 2017

A. HISTORICAL FINANCIAL INFORMATION**PREPARATION OF HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of Jinchang Disheng for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand RMB'000 except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the period from 11/11/2013 (date of establishment) to 31/03/2014 RMB'000	Year ended 31/03/2015 RMB'000	31/03/2016 RMB'000	Nine months ended 31/12/2015 RMB'000 (unaudited)	31/12/2016 RMB'000
	NOTES					
Revenue	6	13,136	52,661	94,800	74,593	58,911
Cost of sales		(6,121)	(41,257)	(48,907)	(36,662)	(36,603)
Gross profit		7,015	11,404	45,893	37,931	22,308
Interest income		4	10	45	43	21
Other gains and losses	7	–	(794)	474	299	(3,625)
Administrative expenses		(688)	(3,821)	(1,519)	(1,290)	(1,248)
Finance costs	8	–	(36,423)	(55,077)	(40,901)	(24,027)
Profit (loss) before tax	9	6,331	(29,624)	(10,184)	(3,918)	(6,571)
Income tax expenses	10	–	(3)	–	–	–
Profit (loss) and total comprehensive income (expenses) for the period/year		6,331	(29,627)	(10,184)	(3,918)	(6,571)

STATEMENTS OF FINANCIAL POSITION

		At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
	NOTES				
NON-CURRENT ASSETS					
Equipment		13	86	49	22
Solar power plant	12	556,763	808,893	768,321	737,891
Value-added tax recoverable	13	49,826	69,116	64,038	49,573
Other non-current assets	13	–	–	9,776	8,129
		<u>606,602</u>	<u>878,095</u>	<u>842,184</u>	<u>795,615</u>
CURRENT ASSETS					
Trade and other receivables	14	13,840	57,934	137,798	135,932
Value-added tax recoverable	13	8,953	16,667	13,663	19,195
Financial asset designated at fair value through profit or loss	15	–	–	–	30,000
Bank balances and cash	16	<u>2,894</u>	<u>2,322</u>	<u>501,648</u>	<u>35,280</u>
		<u>25,687</u>	<u>76,923</u>	<u>653,109</u>	<u>220,407</u>
CURRENT LIABILITIES					
Trade and other payables	17	319,058	177,849	14,542	8,597
Amount due to a holding company	18	–	–	144,686	133,922
Bank and other borrowings	19	304,900	–	32,609	160,450
Obligation under finance lease	20	–	68,505	103,588	–
Financial guarantee obligation	21	<u>–</u>	<u>10,597</u>	<u>9,891</u>	<u>9,361</u>
		<u>623,958</u>	<u>256,951</u>	<u>305,316</u>	<u>312,330</u>
NET CURRENT ASSETS (LIABILITIES)					
		<u>(598,271)</u>	<u>(180,028)</u>	<u>347,793</u>	<u>(91,923)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>8,331</u>	<u>698,067</u>	<u>1,189,977</u>	<u>703,692</u>
NON-CURRENT LIABILITIES					
Bank and other borrowings	19	–	–	553,760	447,440
Obligation under finance lease	20	<u>–</u>	<u>425,060</u>	<u>373,394</u>	<u>–</u>
		<u>–</u>	<u>425,060</u>	<u>927,154</u>	<u>447,440</u>
CAPITAL AND RESERVE					
Paid-in capital	22	2,000	306,900	306,900	306,900
Reserves		<u>6,331</u>	<u>(33,893)</u>	<u>(44,077)</u>	<u>(50,648)</u>
TOTAL EQUITY					
		<u>8,331</u>	<u>273,007</u>	<u>262,823</u>	<u>256,252</u>

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Retained earning (Accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
Capital contribution on 11 November 2013 (date of establishment)	2,000	–	–	2,000
Profit for the period	<u>–</u>	<u>–</u>	<u>6,331</u>	<u>6,331</u>
Balance at 31 March 2014	2,000	–	6,331	8,331
Capital contribution (note 22(iii))	304,900	–	–	304,900
Deemed distribution to parent company arising from provision of financial guarantee to an independent third party (note 21)	–	(10,597)	–	(10,597)
Loss for the year	<u>–</u>	<u>–</u>	<u>(29,627)</u>	<u>(29,627)</u>
Balance at 31 March 2015	306,900	(10,597)	(23,296)	273,007
Loss for the year	<u>–</u>	<u>–</u>	<u>(10,184)</u>	<u>(10,184)</u>
Balance at 31 March 2016	306,900	(10,597)	(33,480)	262,823
Loss for the period	<u>–</u>	<u>–</u>	<u>(6,571)</u>	<u>(6,571)</u>
Balance at 31 December 2016	<u>306,900</u>	<u>(10,597)</u>	<u>(40,051)</u>	<u>256,252</u>
UNAUDITED				
Balance at 1 April 2015	306,900	(10,597)	(23,296)	273,007
Loss for the period	<u>–</u>	<u>–</u>	<u>(3,918)</u>	<u>(3,918)</u>
Balance at 31 December 2015	<u>306,900</u>	<u>(10,597)</u>	<u>(27,214)</u>	<u>269,089</u>

STATEMENTS OF CASH FLOWS

	For the period from 11 November 2013 (date of establishment) to 31/03/2014 RMB'000	Year ended		Nine months ended	
		31/03/2015 RMB'000	31/03/2016 RMB'000	31/12/2015 RMB'000 (unaudited)	31/12/2016 RMB'000
OPERATING ACTIVITIES					
Profit (loss) before tax	6,331	(29,624)	(10,184)	(3,918)	(6,571)
Adjustments for:-					
Finance costs	-	36,423	55,077	40,901	24,027
Depreciation of equipment	-	26	37	27	27
Depreciation of solar power plant	5,178	35,608	40,572	30,429	30,430
Release of financial guarantee obligation	-	-	(706)	(530)	(530)
Interest income	(4)	(10)	(45)	(43)	(21)
Financial guarantee expense	-	-	-	-	847
Net loss on early redemption of obligation under finance lease	-	-	-	-	4,160
Operating cash flows before movements in working capital	11,505	42,423	84,751	66,866	52,369
(Increase) decrease in trade and other receivables	(13,840)	(44,094)	(78,848)	(58,047)	2,856
Increase (decrease) in trade and other payables	1,200	3,538	(1,712)	(421)	3,065
CASH GENERATED FROM (USED IN) OPERATION	(1,135)	1,867	4,191	8,398	58,290
Income tax paid	-	(3)	-	-	-
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(1,135)	1,864	4,191	8,398	58,290
INVESTING ACTIVITIES					
Payments for construction cost in respect of solar power plant	(240,083)	(424,872)	(171,587)	(171,587)	-
Purchase of equipment	(13)	(99)	-	-	-
Increase in value-added tax recoverable	(58,779)	(21,277)	-	-	-
Decrease in value-added tax recoverable	-	-	16,332	13,012	8,550
Interest received	4	10	45	43	21
Purchase of a financial asset designated at fair value through profit or loss	-	-	-	-	(30,000)
NET CASH USED IN INVESTING ACTIVITIES	(298,871)	(446,238)	(155,210)	(158,532)	(21,429)

APPENDIX III
ACCOUNTANTS' REPORT OF THE PROJECT COMPANY

	For the period from 11 November 2013 (date of establishment) to 31/03/2014 RMB'000	Year ended		Nine months ended	
		31/03/2015 RMB'000	31/03/2016 RMB'000	31/12/2015 RMB'000 (unaudited)	31/12/2016 RMB'000
FINANCING ACTIVITIES					
Capital contribution by a shareholder	2,000	-	-	-	-
New bank and other borrowings raised	-	-	579,625	80,000	19,000
Interest paid	(4,000)	(10,358)	(2,000)	(2,000)	(20,399)
Deposit paid for securing other borrowings	-	-	(800)	(500)	(190)
Proceeds from obligation under finance lease	-	490,000	-	-	-
Repayment of obligation under finance lease	-	(35,840)	(73,366)	(49,856)	(474,346)
Payment of penalty charges on early redemption of obligation under finance lease	-	-	-	-	(6,538)
Advances from shareholders	304,900	-	172,686	150,886	24,132
Repayment of advances from shareholders	-	-	(28,000)	(28,000)	(34,896)
Advance from an independent third party	-	-	2,200	2,200	-
Financial guarantee fee paid	-	-	-	-	(9,992)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>302,900</u>	<u>443,802</u>	<u>650,345</u>	<u>152,730</u>	<u>(503,229)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,894	(572)	499,326	2,596	(466,368)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	<u>-</u>	<u>2,894</u>	<u>2,322</u>	<u>2,322</u>	<u>501,648</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, REPRESENTED BY BANK BALANCE AND CASH	<u>2,894</u>	<u>2,322</u>	<u>501,648</u>	<u>4,918</u>	<u>35,280</u>

NOTES TO HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Jinchang Disheng was established in the People's Republic of China (the "PRC") with limited liability on 11 November 2013. The addresses of its registered office and principal place of business is No. 68 Xinhua East Road, Jinchang city, Gansu Province, the PRC. At the time of its establishment, Mr. Zhou Chunping ("Mr. Zhou") was the sole and controlling shareholder of Jinchang Disheng.

Jinchang Disheng is engaged in the operation of a grid-connected Solar Power Project located in Jinchuan District, Jinchang City, Gansu Province, the PRC.

On 25 December 2013, Mr. Zhou entered into equity purchase agreements with Ningbo Tongce New Energy Development Partnership (Limited Partnership)* (寧波同策新能源發展合夥企業(有限合夥))("Ningbo Tongce") (previously known as Shenzhen Tongce New Energy Development Partnership (Limited Partnership)* (深圳同策新能源發展合夥企業(有限合夥))("Shenzhen Tongce") and Shenzhen Tongce Equity Investment Management Co., Ltd.* (深圳同策股權投資管理有限公司)("Tongce Equity"), pursuant to which Mr. Zhou agreed to transfer the 99% and 1% equity interests in Jinchang Disheng to Ningbo Tongce and Tongce Equity, respectively. The transaction was completed on 7 January 2014.

On 22 June 2015, Ningbo Tongce and Tongce Equity entered into equity purchase agreements with Shanghai Guxin Assets Management Company Limited* (上海谷欣資產管理有限公司)("Shanghai Guxin"), pursuant to which Ningbo Tongce and Tongce Equity agreed to transfer their aggregated entire 100% equity interest in Jinchang Disheng to Shanghai Guxin, respectively. The transaction was completed on 23 June 2015.

Shanghai Guxin, subsequently on 29 January 2016, established a wholly-owned subsidiary, namely Qingdao Guxin Electricity Investment Company Limited* (青島谷欣電力投資有限公司, "Qingdao Guxin"), in the PRC and transferred its entire 100% equity interest in Jinchang Disheng to Qingdao Guxin for a cash consideration of RMB306,900,000 (the "Reorganisation"). The Reorganisation was completed on 3 March 2016, and Qingdao Guxin became the immediate holding company of Jinchang Disheng, since then.

* English name is for identification purpose only

Jinchang Disheng's immediate holding company as at the date of this report is Qingdao Guxin, while the intermediate holding company is Shanghai Guxin, which is owned by Shanghai Yihe Investment Management Company Limited* (上海逸合投資管理有限公司) and Shanghai Qinxin Investment Development Company Limited* (上海瑾信投資發展有限公司) as to 50% and 50%, respectively, both were limited liability companies established in the PRC.

The statutory financial statements of Jinchang Disheng for the period ended 31 December 2014 and year ended 31 December 2015 were prepared in accordance with the relevant accounting principles and regulations applicable to enterprises established in the PRC and were audited by Ruihua Certified Public Accountants LLP* (瑞華會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.

No PRC statutory financial statements for the year ended 31 December 2016 have been issued for Jinchang Disheng as there are no statutory requirements for it to issue statutory audited financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which confirm with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Jinchang Disheng reported a net loss of RMB29,627,000, RMB10,184,000 and RMB6,571,000 for the year ended 31 March 2015 and 2016, and the nine months ended 31 December 2016, respectively and Jinchang Disheng's current liabilities exceeded its current assets by RMB598,271,000, RMB180,028,000 and RMB91,923,000 as at 31 March 2014 and 2015, and 31 December 2016, respectively. Jinchang Disheng also provided a financial guarantee to an independent third party in a maximum and total amount of RMB318,000,000 as set forth in note 21. In addition as at 31 March 2014, Jinchang Disheng had capital commitment, contracted for but not provided in the financial statements, amounting to RMB287,738,000 disclosed in note 23 to the Historical Financial Information. Historical Financial Information have been prepared on a going concern basis because Shanghai Guxin, unconditionally up to date of disposal of Qingdao Guxin, and China Smarter Energy Group Holdings Limited (中國智慧能源集團控股有限公司)("the Company"), on the condition that the acquisition of Qingdao Guxin by the Company was successful, have undertaken to provide financial support, including an undertaking to provide financial support to Jinchang Disheng when its debts or financial guarantee obligation fall due. Accordingly, Jinchang Disheng can meet its all financial obligations as they fall due in the near future.

* English name is for identification purpose only

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

For the purposes of preparing and presenting Historical Financial Information for the Relevant Periods, Jinchang Disheng has adopted all the HKFRSs which are effective for annual period beginning on 1 April 2016 consistently through the Relevant Periods.

New and amendments to HKFRSs in issue but not yet effective

At the date of this report, Jinchang Disheng has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Jinchang Disheng has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Project Company are described below:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on Jinchang Disheng's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may not have a material impact to Jinchang Disheng's financial assets. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the director of Jinchang Disheng performs a detailed review.

HKFRS 15 Revenues from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarification to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The director of Jinchang Disheng is in the process of assessing the potential impacts of HKFRS 15 in respect of the contracts with customer, in particular, Jinchang Disheng's electricity sales contracts. Upon application of HKFRS 15, Jinchang Disheng is required to evaluate the terms and conditions of and the counterparties to the contracts which may impact revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until Jinchang Disheng performs a detail review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the financial statements.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 April 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Jinchang Disheng's financing activities, specifically reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities will be provided on application.

The director of Jinchang Disheng anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the financial statements of the company in future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Jinchang Disheng takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 *Leases* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are recognised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principle accounting policies are set out as below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for electricity supplied in the normal course of business.

Revenue arising from the sale of electricity is recognised in the accounting period when electricity is generated and transmitted. Tariff subsidy represents subsidy received and receivable from the government authorities in respect of Jinchang Disheng's solar power generation business. Tariff subsidy is recognised at its fair value where there is a reasonable assurance that the additional tariff will be received and Jinchang Disheng will comply with all attached conditions, if any.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Jinchang Disheng and the amount of the income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Jinchang Disheng as lessee

Assets held under finance leases are initially recognised as assets of Jinchang Disheng at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are recognised in accordance with Jinchang Disheng's general policy on borrowing costs.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for recognised.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit (loss) before tax" as reported in the statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Jinchang Disheng's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be recognised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset recognised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Jinchang Disheng expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Equipment

Equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The items of equipment are depreciated on a straight-line basis over the following estimated useful lives after taking into account the residual values as follow:

Office equipment	3 years
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An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Solar power plant

Completed solar power plant, being solar power plant held for the generation of electricity income, are stated at in the statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Solar power plant in the course of construction for generation of electricity income are carried at cost, less any recognised impairment loss. Costs include costs of solar modules, permits applied, professional fee and, for qualifying assets, borrowing costs and other costs recognised in the course of construction. Solar power plant under construction are stated in the statement of financial position at cost less subsequent impairment losses, if any. Such solar power plant under construction are reclassified to completed solar power plant upon completion and are ready for intended use. Depreciation of these solar power plant commences when the solar power plant are successfully connected to the State Grid Company and completed trial operation.

Depreciation is recognised so as to write off the cost of assets (other than solar power plant under construction) less their residual values over their estimated useful lives of 20 years, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The items of solar power plant are depreciated on a straight-line basis over the following estimated useful lives after taking into account the residual values as follow:

Solar power plant	20 years
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Completed solar power plant are derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of completed solar power plant is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on tangible assets

At the end of each reporting period, Jinchang Disheng reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, Jinchang Disheng estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when Jinchang Disheng has a present obligation (legal or constructive) as a result of a past event, it is probable that Jinchang Disheng will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when Jinchang Disheng becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Jinchang Disheng's financial assets are classified 'financial asset designated at fair value through profit or loss ("FVTPL")' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way of purchases or sales of financial assets are recognised or derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation of convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including restricted deposit and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Financial asset designated at FVTPL

Financial assets are classified as at FVTPL when the financial asset is designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial asset at FVTPL is stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses. Fair value is determined in the manner described in note 29.

Impairment of financial assets

Financial assets, other than that at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a

trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by Jinchang Disheng are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expenses is recognised on an effective interest basis.

Financial liabilities at amortised costs

Financial liabilities (including trade and other payables, bank and other borrowings and obligation under finance lease) are subsequently measured at amortised cost using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition

Jinchang Disheng derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Jinchang Disheng derecognises financial liabilities when, and only when, Jinchang Disheng's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Jinchang Disheng's accounting policies, which are described in note 4, the director of Jinchang Disheng is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Revenue recognition on tariff subsidy on sales of electricity

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

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

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

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

Pursuant to the New Tariff Notice, a set of standardised procedures for the settlement of the tariff subsidy has come into force since 2013 and approvals for the registration in the Reusable Energy Tariff Subsidy Catalogue (可再生能源電價附加資金補助目錄)(the “Catalogue”) on a project-by-project basis are required before the allocation of funds to State Grid Gansu Electric Power Company (國家電網甘肅省電力公司)(the “State Grid Company”), which then would make settlement to the Jinchang Disheng. Registrations to the Catalogue is an ongoing process and the Catalogue is opened for registrations on a batch by batch basis.

During the period from 11 November 2013 (date of establishment) to the period ended 31 March 2014, the two years ended 31 March 2015 and 2016, and the nine months ended 31 December 2016, revenue on tariff adjustments on electricity sales of RMB8,962,000, RMB35,663,000, RMB64,360,000 and RMB46,652,000, respectively, was recognised from the State Grid Company in the PRC.

Prior to 23 August 2016, in the opinion of the director of Jinchang Disheng, the recognition of accrued revenue on tariff subsidy is proper based on their judgement. The operating solar power plant had been assessed by the director of Jinchang Disheng, assisted by the PRC legal counsel, which was qualified for, and had met, all the requirements and conditions according to the requirements and conditions for the registration in the Catalogue. The director of the Jinchang Disheng is confident that the operating power plants was able to be registered in the Catalogue in due course and the accrued revenue on tariff subsidy was fully recoverable but only subject to timing of allocation of funds from the government, after considering that there are no bad debt experiences with the State Grid Company in the past and the tariff subsidy is fully funded by the PRC government.

On 24 August 2016, the solar power plant held by Jinchang Disheng has been successfully registered to the Catalogue. Since then, the director of Jinchang Disheng assessed that, revenue recognition on tariff subsidy on sales of electricity was no longer a critical accounting judgement, since from industry practice, once an entity is successfully registered in the Catalogue, the allocation of funds from the government will be of high certainty, despite the fact that the exact time of allocation is yet to be confirmed by the government, subject to only formality, the management of Jinchang Disheng expected to recover the allocation of fund in the foreseeable future and consider the effect of the time value of money is immaterial.

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

Valuation on the financial guarantee contract

For the fair value of the financial guarantee contract provided to the guaranteed counterparty, assumptions are made by the management of Jinchang Disheng at date of initial recognition, based on the guaranteed amount and the credit spread of the guaranteed counterparties, of which was determined according to their estimated default probability with reference to their credit quality. The credit spread and risk of default were, therefore, of significant estimation uncertainty. If the risk of default was significantly different from the estimated default probability, the fair value of the financial guarantee contracts at date of initial recognition would be significantly changed. The financial guarantee contracts are subsequently measured at the higher of the amount of obligation under the contract as determined in accordance with HKAS 37 and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

As at 31 March 2014, 2015 and 2016, and 31 December 2016, the carrying amount of financial guarantee obligation was amounted to nil, RMB10,597,000, RMB9,891,000 and RMB9,361,000 respectively.

6. REVENUE AND SEGMENT INFORMATION

Jinchang Disheng has been operating in one operating and reportable segment, operation in solar power plant. The management of the Jinchang Disheng, being the director who is the chief operating decision maker, to make decisions based on the financial statements of the Jinchang Disheng prepared in conformity with HKFRSs about resources allocation and performance assessment.

No analysis of the Jinchang Disheng's assets and liabilities by operating and reportable segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

Jinchang Disheng's non-current assets amounted to RMB606,602,000, RMB878,095,000, RMB842,184,000 and RMB795,615,000 as at 31 March 2014, 2015 and 2016 and 31 December 2016, respectively are all located in the PRC.

An analysis of the Jinchang Disheng's revenue is as follows:

	For the period from 11 November 2013 (date of establishment) to 31 March 2014 RMB'000	Year ended		Nine months ended	
		31/03/2015 RMB'000	31/03/2016 RMB'000	31/12/2015 RMB'000 (unaudited)	31/12/2016 RMB'000
Sales of electricity	4,174	16,998	30,440	24,512	12,259
Tariff subsidy (<i>note</i>)	<u>8,962</u>	<u>35,663</u>	<u>64,360</u>	<u>50,081</u>	<u>46,652</u>
	<u>13,136</u>	<u>52,661</u>	<u>94,800</u>	<u>74,593</u>	<u>58,911</u>

Note: The amount represented the tariff subsidy which were approximately 68% for the period from 11 November 2013 to 31 March 2014 and two years ended 31 March 2015 and 2016, and 79% for the period from 1 April 2016 to 31 December 2016 of the total electricity sales in the PRC.

The amount is subject to the allocation of funds by the relevant government authorities and was determined in accordance with the on-grid unit tariff rate approval document and the electricity supply contracts.

Information about major customers

100% of the revenue of Jinchang Disheng were derived from the State Grid Company (including tariff subsidy which was funded by the relevant PRC government authorities of which will be first allocated to the State Grid Company and then remit to Jinchang Disheng) under the relevant government policies throughout the Relevant Periods.

7. OTHER GAINS AND LOSSES

	For the period from 11 November 2013 (date of establishment) to 31 March 2014 RMB'000	Year ended		Nine months ended	
		31/03/2015 RMB'000	31/03/2016 RMB'000	31/12/2015 RMB'000 (unaudited)	31/12/2016 RMB'000
Release of financial guarantee obligation (note 21)	-	-	706	530	530
Others	-	(794)	(232)	(231)	5
Net loss on early redemption of obligation under finance lease (note 20)	-	-	-	-	(4,160)
	-	(794)	474	299	(3,625)

8. FINANCE COSTS

	For the period from 11 November 2013 (date of establishment) to 31 March 2014 RMB'000	Year ended		Nine months ended	
		31/03/2015 RMB'000	31/03/2016 RMB'000	31/12/2015 RMB'000 (unaudited)	31/12/2016 RMB'000
Interest on obligation under finance leases	–	33,679	48,533	37,211	125
Interest on advance from Ningbo Tongce	4,629	9,555	–	–	–
Interest on bank borrowing	–	–	61	–	16,831
Interest on other borrowing	–	–	6,483	3,690	7,071
	<u>4,629</u>	<u>43,234</u>	<u>55,077</u>	<u>40,901</u>	<u>24,027</u>
Less: Amount capitalised in the cost of development of solar power plant	<u>(4,629)</u>	<u>(6,811)</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>36,423</u>	<u>55,077</u>	<u>40,901</u>	<u>24,027</u>

Borrowing costs capitalised during the period from 11 November 2013 (date of establishment) to the period ended 31 March 2014 and the year ended 31 March 2015 up to the completion of the development of the solar power plant includes all the interest expenses incurred for the borrowings obtained by Jinchang Disheng.

9. PROFIT (LOSS) FOR THE PERIOD/YEAR

Profit (loss) for the period/year has been arrived at after charging (crediting):

	For the period from 11 November 2013 (date of establishment) to 31 March 2014 RMB'000	Year ended 31/03/2015 RMB'000		31/03/2016 RMB'000		Nine months ended 31/12/2015 RMB'000 (unaudited)		31/12/2016 RMB'000
Depreciation of equipment	–	26		37		27		27
Depreciation of solar power plant	5,178	35,608		40,572		30,429		30,430
Auditors' remuneration	–	57		145		75		47
Director emolument	–	–		–		–		–
Staff costs (note)								
– Wages, salaries and bonuses	92	222		–		–		–
– Retirement benefit scheme contributions	4	34		–		–		–
	<u>96</u>	<u>256</u>		<u>–</u>		<u>–</u>		<u>–</u>

Note: The staff cost, director's remuneration and minimum lease payments in respect of office premise were borne by Shanghai Guxin without recharging the Project Company since 1 April 2015. For the services provided by the director of Jinchang Disheng and the staff of Shanghai Guxin to the Project Company, their remunerations were paid by Shanghai Guxin without recharging the Project Company. No apportionment has been made as the director of Jinchang Disheng was of the opinion that it was impracticable to apportion such remuneration between their services provided to the Project Company and other group companies of Shanghai Guxin.

10. INCOME TAX EXPENSE

	For the period from 11 November 2013 (date of establishment) to 31 March	Year ended		Nine months ended	
	2014	31/03/2015	31/03/2016	31/12/2015	31/12/2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax:					
PRC Enterprise					
Income Tax					
("EIT")	<u> - </u>	<u> 3 </u>	<u> - </u>	<u> - </u>	<u> - </u>

Jinchang Disheng, being enterprises engaged in public infrastructure project, under the PRC Tax Law and its relevant regulations, was entitled to tax holidays of 3-year full exemption followed by 3-year 50% exemption commencing from its respective years in which its first operating incomes were derived in the period ended 31 March 2014.

APPENDIX III**ACCOUNTANTS' REPORT OF THE PROJECT COMPANY**

The income tax expense for the period/year can be reconciled to the profit (loss) before tax per statements of profit or loss and other comprehensive income as follows:

	For the period from 11 November 2013 (date of establishment) to 31 March 2014 RMB'000	Year ended		Nine months ended	
		31/03/2015 RMB'000	31/03/2016 RMB'000	31/12/2015 RMB'000 (unaudited)	31/12/2016 RMB'000
Profit (loss) before tax	6,331	(29,624)	(10,184)	(3,918)	(6,571)
Tax at the PRC EIT rate of 25%	1,583	(7,406)	(2,546)	(979)	(1,643)
Tax effect of expenses not deductible for tax purpose	4	704	864	863	7
Tax effect of deductible temporary difference not recognised	6	344	899	589	1,547
Effect of tax concession	(1,593)	–	–	–	–
Tax effect of tax losses not recognised	–	6,361	783	–	89
Utilisation of tax losses previously not recognised	–	–	–	(473)	–
Income tax expense for the period/year	–	3	–	–	–

As the year ended 31 March 2015 and 2016 and period ended 31 December 2016, Jichang Disheng has unrecognised tax losses of RMB25,444,000, RMB28,576,000 and RMB28,932,000, respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of above tax losses due to the unpredictability of future profit streams. Tax losses will be carried forward and expired in the following years:

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
2020	–	25,444	25,444	25,444
2021	–	–	3,132	3,132
2022	–	–	–	356
	<u>–</u>	<u>25,444</u>	<u>28,576</u>	<u>28,932</u>

As at 31 March 2014, 2015 and 2016 and 31 December 2016, Jinchang Disheng has deductible temporary differences of RMB24,000, RMB1,400,000, RMB4,996,000 and RMB11,184,000, respectively. No deferred tax assets has been recognised as as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

11. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods.

12. SOLAR POWER PLANT

	Solar power plant under construction RMB'000	Completed solar power plant RMB'000	Total RMB'000
Cost			
Balance at 11 November 2013 (date of establishment)	–	–	–
Additions	561,941	–	561,941
Transferred to completed solar power plant	(438,563)	438,563	–
Balance at 31 March 2014	123,378	438,563	561,941
Additions	287,738	–	287,738
Transferred to completed solar power plant	(411,116)	411,116	–
Balance at 31 March 2015, 2016 and 31 December 2016	–	849,679	849,679
Accumulated depreciation			
Balance at 11 November 2013 (date of establishment)	–	–	–
Provided for the period	–	5,178	5,178
Balance at 31 March 2014	–	5,178	5,178
Provided for the year	–	35,608	35,608
Balance at 31 March 2015	–	40,786	40,786
Provided for the year	–	40,572	40,572
Balance at 31 March 2016	–	81,358	81,358
Provided for the period	–	30,430	30,430
Balance at 31 December 2016	–	111,788	111,788
Carrying values			
As at 31 March 2014	123,378	433,385	556,763
As at 31 March 2015	–	808,893	808,893
As at 31 March 2016	–	768,321	768,321
As at 31 December 2016	–	737,891	737,891

The solar power plant held by Jinchang Disheng was situated in a land which was allocated by the relevant government authorities at nil consideration. Jinchang Disheng owns the land use right of such land.

The solar power plant under construction were transferred to completed solar power plant when the solar power plant complete trial operation and are successfully connected to the State Grid Company and generate electricity.

Certain component of the solar power plant (representing the machineries and equipment) had been pledged as securities for securing a bank borrowing obtained by Jinchang Disheng. Details of which are set out in note 24.

13. OTHER ASSETS

(A) Value-added tax recoverable

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Value-added tax recoverable	<u>58,779</u>	<u>85,783</u>	<u>77,701</u>	<u>68,768</u>
Analysed for reporting purposes as				
Non-current assets	49,826	69,116	64,038	49,573
Current assets	<u>8,953</u>	<u>16,667</u>	<u>13,663</u>	<u>19,195</u>
	<u>58,779</u>	<u>85,783</u>	<u>77,701</u>	<u>68,768</u>

Value-added tax recoverable ("VAT") was derived from the development and construction of the solar power plant, representing 17% of the cost of construction and 6% of the consultancy fee entitled as the cost of development of the solar power plant incurred. Pursuant to the relevant rules and regulation in the PRC, VAT input can be utilised to offset against VAT output. At each period end date, the management of Jincheng Disheng estimated the amount expected to be utilised for offset, making reference to the level of sales of electricity in the coming years of which VAT output is calculated.

The amount expected by the management of the Project Company to be utilised within one year after the end of the reporting period was included as current assets, accordingly.

(B) Restricted deposit and prepayment of financial guarantee expense

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Restricted deposit (note i)	–	–	800	990
Prepayment of financial guarantee expense (note ii)	<u>–</u>	<u>–</u>	<u>9,992</u>	<u>9,145</u>
	<u>–</u>	<u>–</u>	<u>10,792</u>	<u>10,135</u>
Analysed for reporting purposes as				
Non-current assets	–	–	9,776	8,129
Current assets (included in trade and other receivables in note 14)	<u>–</u>	<u>–</u>	<u>1,016</u>	<u>2,006</u>
	<u>–</u>	<u>–</u>	<u>10,792</u>	<u>10,135</u>

Notes:

- (i) Restricted deposit represents certain percentage of the other borrowing (included in bank and other borrowings in note 19) required by the licensed financial institution to be deposited into a designated bank account by Jinchang Disheng, and such amount was restricted for withdrawal and would be released upon the maturity and repayment of the other borrowing.
- (ii) On 31 March 2016, an agreement had been entered into between an independent third party and Jinchang Disheng, pursuant to which the independent third party would act as a guarantor in favor of the bank for the bank borrowing raised by Jinchang Disheng, over a guaranteed period from 31 March 2016 to 31 January 2026, while Jinchang Disheng would pay a financial guarantee service fee of RMB9,992,000 to the independent third party.

Such amount was accrued as other payable as at 31 March 2016 and was subsequently paid during the period ended 31 December 2016. The amount would be amortised to profit or loss as financial guarantee expense over the guaranteed period.

14. TRADE AND OTHER RECEIVABLES

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Trade receivables	3,354	5,685	5,319	–
Accrued revenue on tariff subsidy	<u>10,486</u>	<u>52,212</u>	<u>131,305</u>	<u>133,781</u>
Total trade receivables and accrued revenue on tariff subsidy (note)	<u>13,840</u>	<u>57,897</u>	<u>136,624</u>	<u>133,781</u>
Other receivables				
Restricted deposit (note 13(i))	–	–	–	990
Prepayment of financial guarantee fee expenses (note 13(ii))	–	–	1,016	1,016
Others	<u>–</u>	<u>37</u>	<u>158</u>	<u>145</u>
Others	<u>–</u>	<u>37</u>	<u>1,174</u>	<u>2,151</u>
	<u>13,840</u>	<u>57,934</u>	<u>137,798</u>	<u>135,932</u>

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

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Age				
0 to 30 days	11,420	11,601	11,091	3,008
31 to 60 days	2,359	5,433	6,709	4,886
61 to 90 days	61	2,046	4,370	9,155
91 to 120 days	–	2,382	3,918	8,087
Over 120 days	<u>–</u>	<u>36,435</u>	<u>110,536</u>	<u>108,645</u>
	<u>13,840</u>	<u>57,897</u>	<u>136,624</u>	<u>133,781</u>

Note: Jinchang Disheng's trade receivables and accrued revenue on tariff subsidy from the sales of electricity are mainly receivables from the State Grid Company. Generally, the trade receivables are due within 30 days from the date of billing, except for collection of the accrued revenue on tariff subsidy, representing a range of 73% to 93% of total electricity sales, which is subject to settlement by the State Grid Company upon finalisation of the allocation of funds by relevant government authorities to the State Grid Company.

Jinchang Disheng's trade receivables and accrued revenue on tariff subsidy resulting from the solar power plan operation had been pledged as securities for securing a bank borrowing obtained by Jinchang Disheng. Details of which are set out in note 24.

15. FINANCIAL ASSET DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Financial product – at fair value	<u>–</u>	<u>30,000</u>

On 28 June 2016, the Project Company acquired an unlisted financial product designated at FVTPL from a licensed financial institution at cost of RMB30,000,000. The principal amount and investment return are unsecured, unguaranteed and carry at a variable rate of return based on the performance of underlying investment portfolio.

The director of the Project Company assessed that the change of fair value of the financial product is immaterial, therefore, such amount is not recognised in profit or loss for the period from 28 June 2016 to 31 December 2016. Details of the fair value measurement are set out in note 26(c).

16. BANK BALANCE AND CASH

Bank balances and cash of the Jinchang Disheng comprise cash and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at a market rate of ranging from 0.30% to 0.35% per annum for the period ended 31 March 2014, year ended 31 March 2015 and 2016 and of 0.30% per annum for the period ended 31 December 2016, respectively.

17. TRADE AND OTHER PAYABLES

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Trade payables	–	1,649	1,160	4,375
Payables for engineering, procurement and construction (“EPC”) of solar power plant (note i)	317,055	173,111	1,524	1,524
Interest payable	803	–	–	982
Other taxes payable	592	1,803	592	–
Payable for financial guarantee expenses (note 13(ii))	–	–	9,992	–
Others	<u>608</u>	<u>1,286</u>	<u>1,274</u>	<u>1,716</u>
	<u>319,058</u>	<u>177,849</u>	<u>14,542</u>	<u>8,597</u>

Notes:

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

The credit period for the trade payable, representing the cost payable for the operation and maintenance of the solar power plant, is approximately 120 days throughout the Relevant Periods.

The following is an aged analysis of the trade payable presented based on the invoice date at the end of the reporting period:

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
0 to 30 days	–	410	384	468
31 to 60 days	–	649	415	413
61 to 90 days	–	393	361	398
91 to 120 days	–	197	–	407
Over 120 days	–	–	–	2,689
	<u>–</u>	<u>1,649</u>	<u>1,160</u>	<u>4,375</u>

18. AMOUNT DUE TO A HOLDING COMPANY

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Amount due to a holding company	–	–	144,686	133,922

The amount is due to Shanghai Guxin and is non-trade in nature, unsecured, interest-free and repayable on demand.

19. BANK AND OTHER BORROWINGS

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Guaranteed and secured:				
bank borrowing (note i)	–	–	499,686	500,298
Unguaranteed and secured:				
other borrowing (note ii)	–	–	84,483	105,392
Unguaranteed and unsecured:				
borrowing from Ningbo Tongce (note iii)	304,900	–	–	–
Other borrowing (note iv)	<u>–</u>	<u>–</u>	<u>2,200</u>	<u>2,200</u>
	<u>304,900</u>	<u>–</u>	<u>586,369</u>	<u>607,890</u>
Carrying amount repayable				
Within one year	304,900	–	32,609	160,450
More than one year, but not exceeding two years	–	–	132,640	52,640
More than two years but not exceeding five years	–	–	157,920	157,920
More than five years	<u>–</u>	<u>–</u>	<u>263,200</u>	<u>236,880</u>
	304,900	–	586,369	607,890
Less: Amounts due within one year	<u>(304,900)</u>	<u>–</u>	<u>(32,609)</u>	<u>(160,450)</u>
Amounts shown under non-current liabilities	<u>–</u>	<u>–</u>	<u>553,760</u>	<u>447,440</u>

Notes:

- (i) Bank borrowing carried a fixed interest rate of 4.41% per annum over the Relevant Periods. Details of assets pledged for obtaining the bank borrowing were set out in note 24. The amount was guaranteed by an independent third party for a guarantee fee of RMB9,992,000 paid by Jinchang Disheng. Details of which are set out in note 13.

- (ii) Other borrowing carried a fixed interest rate of 14% per annum for the period ended 31 March 2016 and the interest rate was repriced to 10% per annum on 1 April 2016. The other borrowing is secured by restricted deposit. Details of which are set out in note 14 respectively.
- (iii) As at 31 March 2014, advance from Ningbo Tongce was unsecured, carried a fixed interest rate of 13% per annum and repayable within one year.

On 17 December 2014, Jinchang Disheng entered into an agreement with Ningbo Tongce, pursuant to which Ningbo Tongce agreed to capitalise the borrowing advanced to Jinchang Disheng amounting to RMB304,900,000 as capital contribution in Jinchang Disheng.

- (iv) The other borrowing is due to an independent third party, which is unsecured, interest-free and repayable on demand.

20. OBLIGATIONS UNDER FINANCE LEASES

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Analysed for reporting purposes as:				
Current liabilities	–	68,505	103,588	–
Non-current liabilities	–	425,060	373,394	–
	<u>–</u>	<u>493,565</u>	<u>476,982</u>	<u>–</u>

Note: Certain of the Jinchang Disheng's machineries and equipment classified as of solar power plant was made under finance leases. The lease term is 10 years since 15 August 2014 and the corresponding effective interest rate is ranging from 12.27% to 12.67% for the year ended 31 March 2015, ranging from 11.02% to 12.27% for the year ended 31 March 2016 and 11.02% for the period from 1 April 2016 to 31 December 2016. The obligation under finance lease is carried at a variable interest rate which was based on the benchmark interest rate issued by the People's Bank of China ("PBOC"). Interest was reset every three months.

On 1 April 2016, the management of Jinchang Disheng determined to early redeem the obligation under finance lease for a cash repayment of RMB474,346,000, the carrying amount of the financial lease obligation as at 1 April 2016 was RMB476,724,000 and the corresponding interest rate is 11.02%. The early redemption of the obligation under finance lease, after taking into account of the penalty charge of RMB6,538,000, resulted in a net loss of RMB4,160,000 charged to profit or loss.

	Minimum Lease payments At 31/03/			Minimum Lease payments At 31/12/	Present value of minimum lease payments At 31/03/			Present value of minimum lease payments At 31/12/
	2014	2015	2016	2016	2014	2015	2016	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Repayment on demand or within one year	–	73,366	109,067	–	–	68,505	103,588	–
In more than one year but within two years	–	109,067	86,568	–	–	92,493	73,591	–
In more than two years but within five years	–	264,511	269,373	–	–	181,570	186,004	–
In more than five years	–	329,637	238,207	–	–	150,997	113,799	–
	–	776,581	703,215	–	–	493,565	476,982	–
Less: future finance charges	–	(283,016)	(226,233)	–	n/a	n/a	n/a	n/a
Present value of lease obligations	–	493,565	476,982	–	–	493,565	476,982	–

21. FINANCIAL GUARANTEE OBLIGATION

	Financial guarantee contract RMB'000
Balance at 11 November 2013 (date of establishment) and 31 March 2014	–
Initial recognition during the year	10,597
At 31 March 2015	10,597
Release for the year	(706)
At 31 March 2016	9,891
Release for the period	(530)
At 31 December 2016	9,361

On 27 March 2015, Jinchang Disheng provided a financial guarantee in favor of a bank enabling the independent third party to obtain a secured bank borrowing over the period of 15 years maturing in 2030. The financial guarantee was provided as Shenzhen Tongche (subsequently renamed to Ningbo Tongche), the parent company of the Project Company at the time of provision of the financial guarantee to the independent third party, requested the Project Company to provide financial guarantee for its own reasons, and

therefore the fair value of the related guarantee at initial recognition of RMB10,597,000 was accounted for as deemed distribution to that parent company on initial recognition and was debited to equity, accordingly. The maximum and total amount of borrowing utilised by the independent third party were of RMB318,000,000 as at 31 March 2015 and 2016, and 31 December 2016, respectively.

22. PAID-IN CAPITAL

	<i>RMB'000</i>
Capital contribution received on 11 November 2013 (date of establishment) and at 31 March 2014	2,000
Capital contribution arising from capitalisation of amount due to Ningbo Tongce (<i>note 19(iii)</i>)	<u>304,900</u>
Balance at 31 March 2015, 31 March 2016 and 31 December 2016	<u><u>306,900</u></u>

23. CAPITAL COMMITMENTS

	At 31/03/2014 <i>RMB'000</i>	At 31/03/2015 <i>RMB'000</i>	At 31/03/2016 <i>RMB'000</i>	At 31/12/2016 <i>RMB'000</i>
Capital commitments in respect of the construction of solar power plant contracted but not provided for the Historical Financial Information	<u>287,738</u>	<u>–</u>	<u>–</u>	<u>–</u>

24. PLEDGE OF ASSETS

100% equity interests of Jinchang Disheng was pledged to a financial leasing company as at 31 March 2015. As at 31 March 2016 and 31 December 2016, 100% equity interests of Jinchang Disheng was pledged by its immediate holding company, Qingdao Guxin, to a bank in order to obtain a bank borrowing.

In addition, the following assets were pledged in respect of the Project Company's bank and other borrowings.

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Restricted deposit	–	–	800	990
Trade receivables and accrued revenue on tariff subsidy	–	–	136,624	133,781
Machineries and equipment classified as solar power plant	–	–	524,879	504,108
	<u>–</u>	<u>–</u>	<u>662,303</u>	<u>638,879</u>

25. CAPITAL RISK MANAGEMENT

Jinchang Disheng manages its capital to ensure that Jinchang Disheng will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Jinchang Disheng's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Jinchang Disheng consists of net debts, which includes bank and other borrowings disclosed in note 19, net of cash and cash equivalents and equity attributable to owner of Jinchang Disheng, comprising paid-in capital and reserves.

The director of Jinchang Disheng reviews the capital structure periodically. As part of this review, the director of Jinchang Disheng considers the cost of capital and the risks associates with each class of capital. Jinchang Disheng will balance its overall structure through the new share issues as well as issue of new debts or the redemption of existing debts.

26. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31/03/2014 RMB'000	At 31/03/2015 RMB'000	At 31/03/2016 RMB'000	At 31/12/2016 RMB'000
Financial assets				
Loans and receivables				
Trade and other receivables	13,840	57,934	136,782	134,916
Cash and cash equivalents	2,894	2,322	501,648	35,280
Restricted deposit classified as other non-current assets	—	—	800	—
	16,734	60,256	639,230	170,196
Financial asset designated at FVTPL	—	—	—	30,000
	<u>16,734</u>	<u>60,256</u>	<u>639,230</u>	<u>200,196</u>
Financial liabilities				
Trade and other payables	318,439	176,046	13,950	8,597
Bank and other borrowings	304,900	—	586,369	607,890
Obligation under financial lease	—	493,565	476,982	—
Amount due to immediate holding company	—	—	144,686	133,922
	<u>623,339</u>	<u>669,611</u>	<u>1,221,987</u>	<u>750,409</u>

(b) Financial risk management objectives and policies

Jinchang Disheng's major financial instruments include trade and other receivables, bank balances and cash, financial asset designated at FVTPL, trade and other payables, bank and other borrowings, obligation under finance lease and amount due to immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest risk

Jinchang Disheng is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings. Jinchang Disheng currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Jinchang Disheng is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and obligation under finance leases. The director of Jinchang Disheng considers that Jinchang Disheng's exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for obligation under finance lease at the end of each reporting period and the stipulated changes taking place at the beginning of the financial period and held constant throughout the respective reporting period. Bank balances are excluded from sensitivity analysis as the director of Jinchang Disheng considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 100 basis points higher and all other variables were held constant, the post-tax profit for the period ended 31 March 2014 and loss for the period ended 31 December 2016 would be unchanged, while post-tax loss for the year ended 31 March 2015 and 31 March 2016 would have been increased by RMB4,936,000 and RMB4,770,000 respectively.

The post-tax profit for the year/period would be increased by the same amount as mentioned above if interest rate on obligation under finance lease had been 100 basis points lower and all other variables were held constant.

Credit risk

As at the end of each reporting period, Jinchang Disheng's maximum exposure to credit risk which would cause a financial loss to Jinchang Disheng due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the director of Jinchang Disheng has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. Jinchang Disheng reviews the recoverable amount of each individual debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of Jinchang Disheng considers that Jinchang Disheng's credit risk is significantly reduced.

Jinchang Disheng is exposed to the concentration of credit risk to the State Grid Company (including tariff subsidy which was funded by the relevant PRC government authorities, of which will be first allocated to the State Grid Company and the remit to Jinchang Disheng). As it has been successfully registered to the Catalogue on 24 August 2016, the management assessed the credit risk is significantly reduced.

Jinchang Disheng has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are state-owned banks with good reputation or banks with good credit rating assigned by international credit-rating agencies and with good reputation.

Liquidity risk

Jinchang Disheng reported a net loss of RMB29,627,000, RMB10,184,000 and RMB6,571,000 for the year ended 31 March 2015 and 2016, and the nine months ended 31 December 2016, respectively and Jinchang Disheng's current liabilities exceeded its current assets by RMB598,271,000, RMB180,028,000 and RMB91,923,000 as at 31 March 2014 and 2015, and 31 December 2016, respectively. Jinchang Disheng also provided a financial guarantee to an independent third party in a maximum and total amount of RMB318,000,000 as set forth in note 21. In addition as at 31 March 2014, Jinchang Disheng had capital commitment, contracted for but not provided in the financial statements, amounting to RMB287,738,000 disclosed in note 23 to the Historical Financial Information. Historical Financial Information have been prepared on a going concern basis because Shanghai Guxin, unconditionally, and the Company, on the condition that the acquisition of Qingdao Guxin by the Company was successful, have undertaken to provide financial support, including an undertaking to provide financial support to Jinchang Disheng when its debts fall due. Accordingly, Jinchang Disheng can meet its all financial obligations as they fall due in the near future.

In the management of the liquidity risk, the director of Jinchang Disheng monitors and maintains a level of cash and cash equivalents deemed adequate by the director to finance Jinchang Disheng's operations and mitigate the effects of fluctuations in cash flows. The director monitors the utilisation of finance lease and other borrowing.

The following table details Jinchang Disheng's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Jinchang Disheng can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate per annum %	On demand or less than 1 months RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amounts RMB'000
As at 31 March 2014								
Trade and other payables		318,439	-	-	-	-	318,439	318,439
Bank and other borrowings	8.53%	-	305,529	-	-	-	305,529	304,900
		318,439	305,529	-	-	-	623,968	623,339
As at 31 March 2015								
Trade and other payables		176,046	-	-	-	-	176,046	176,046
Obligations under finance leases	12.27%	-	6,474	66,893	373,578	329,636	776,581	493,565
Financial guarantee		-	-	-	-	318,000	318,000	-
		176,046	6,474	66,893	373,578	647,636	1,270,627	669,611

	Weighted average interest rate per annum %	On demand or less than 1 months RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amounts RMB'000
As at 31 March 2016								
Trade and other payables		13,950	–	–	–	–	13,950	13,950
Bank and other borrowings	5.71%	4,944	5,549	50,621	361,299	293,232	715,645	586,369
Amount due to holding company		144,686	–	–	–	–	144,686	144,686
Obligations under finance leases	11.02%	–	23,029	86,039	355,941	238,206	703,215	476,982
Financial guarantee		–	–	–	–	318,000	318,000	–
		<u>163,580</u>	<u>28,578</u>	<u>136,660</u>	<u>717,240</u>	<u>849,438</u>	<u>1,895,496</u>	<u>1,221,987</u>
As at 31 December 2016								
Trade and other payables		8,597	–	–	–	–	8,597	8,597
Bank and other borrowings	5.31%	4,896	5,027	169,861	270,213	258,253	708,250	607,890
Amount due to holding company		133,922	–	–	–	–	133,922	133,922
Financial guarantee		–	–	–	–	318,000	318,000	–
		<u>147,415</u>	<u>5,027</u>	<u>169,861</u>	<u>270,213</u>	<u>576,253</u>	<u>1,168,769</u>	<u>750,409</u>

Market risk

Other price risk

The Project Company is exposed to financial asset designated at FVTPL price risk in relation to its financial asset designated at FVTPL.

The Project Company currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to financial asset designated at FVTPL price risks at the reporting date.

If the price of the financial asset designated at FVTPL had been 5% higher/lower,

- post-tax profit for the period ended 31 December 2016 would have increased/decreased by RMB 1,500,000 as a result of the changes in fair value of financial asset designated at FVTPL.

(c) Fair value measurement of financial instrument

This note provides information about how the Project Company determines fair value of the financial asset.

Fair value measurement recognised in the statement of financial position that is measured at fair value on a recurring basis

Financial asset is measured at fair value at the end of each reporting period. The following table gives information about how the fair value of the financial asset is determined.

Financial Assets	Classified as	Fair value as at 31/03/2014 RMB'000	Fair value as at 31/03/2015 RMB'000	Fair value as at 31/03/2016 RMB'000	Fair value as at 31/12/2016 RMB'000	Fair value hierarchy	Basis of fair value measurement/valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial product	Financial asset designated at FVTPL	N/A	N/A	N/A	Asset – Level 3 30,000		Discounted cash flow. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustments of related expenses.	N/A	N/A

The following table represents the changes in Level 3 financial asset designated at FVTPL during the Relevant Period.

Nine months ended 31 December 2016

	Financial asset designated at FVTPL RMB'000
Balance at 31 March 2016	—
Addition	30,000
Total loss/gain recognised in profit or loss	—
Balance at 31 December 2016	<u><u>30,000</u></u>

27. CONTINGENT LIABILITY

	At	At	At	At
	31/03/2014	31/03/2015	31/03/2016	31/12/2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial guarantee provided in favor of a bank in respect of a bank borrowing granted to an independent third party:				
Total guaranteed amounts	–	318,000	318,000	318,000
Less: amounts recognised as financial guarantee contracts (<i>note 21</i>)	–	(10,597)	(9,891)	(9,361)
Unrecognised amount	–	307,403	308,109	308,639

28. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2015, Jinchang Disheng entered into an agreement with Ningbo Tongce, pursuant to which Ningbo Tongce agreed to transfer its receivables from Jinchang Disheng of RMB304,900,000 to equity investment in Jinchang Disheng. The paid-in capital of Jinchang Disheng was therefore increased to RMB306,900,000.

29. RELATED PARTY TRANSACTIONS**(a) Related party transactions**

Save as disclosed elsewhere in the Historical Financial Information, there was no related party transactions carried out over the Relevant Periods.

(b) Compensation of key management personnel

The remuneration paid to key management personnel, which represents the director of the Target Group during the year, was borne by Shanghai Guxin, the ultimate holding company.

B. DIRECTOR'S REMUNERATION

Under the arrangement currently in force, there is no director's remuneration for the year ended 31 March 2017, as the director's remuneration is all borne by the intermediate holding company of Jinchang Disheng.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Jinchang Disheng has been prepared in respect of any period subsequent to 31 December 2016.

D. EVENT AFTER END OF REPORTING PERIOD

Save as disclosed elsewhere in the Historical Financial Information, there was no other significant event happened after the end of the relevant period.

**(A) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, Li, Tang, Chen & Co., Certified Accountants, Hong Kong, in respect of the pro forma financial information of the Enlarged Group, for the purpose of incorporation in this circular.



李湯陳會計師事務所
LI, TANG, CHEN & CO.
Certified Public Accountants (Practising)

10/F Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

TO THE DIRECTORS OF CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Smarter Energy Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of assets and liabilities of the Group as at 31 March 2017 and the related notes set out in Appendix IV to the circular dated 30 June 2017 (the “**Circular**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the acquisition of Qingdao Guxin Electricity Investment Company Ltd. and its subsidiary (together, the “**Target Group**”) (the “**Acquisition**”) on the Group’s financial position as at 31 March 2017 as if the Acquisition had taken place at 31 March 2017. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s annual results announcement for the year ended 31 March 2017, on which no review report has been published.

Directors’ Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our Independence and Quality Control

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

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

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of the pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 March 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Li, Tang, Chen & Co.
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP****(1) Introduction to the Unaudited Pro Forma Financial Information**

The following unaudited pro forma financial information of the Enlarged Group, being the Group together with Qingdao Guxin Electricity Investment Company Ltd. and its subsidiary (together the “Target Group”) is prepared by the Directors of the Company to illustrate the effect of the acquisition of the Target Group (the “Acquisition”) as if the Acquisition had been completed on 31 March 2017 (the “unaudited pro forma consolidated statement of assets and liabilities”). Details of the Acquisition are set out in the section headed “Letter from the Board” contained in this circular.

The unaudited pro forma financial information has been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited pro forma financial information of the Enlarged Group is based on the Group’s financial position as at 31 March 2017, which has been extracted from the published annual results announcement of the Company for the year ended 31 March 2017, after making pro forma adjustments that are (i) directly attributable to the Acquisition and not relating to other further events or decisions and (ii) factually supportable.

The unaudited pro forma financial information was prepared based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of the specified dates or any future dates.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group set out in the annual results announcement of the Company for the year ended 31 March 2017, the accountants’ report on the financial information of the Target Group as set out in Appendix II to this circular and other financial information contained in this circular.

(2) Unaudited Pro Forma Consolidated Statement of Assets and Liabilities

	Pro forma adjustments						
	The Group as at 31 March 2017	The Target Group as at 31 December 2016	Other pro forma adjustments				The Enlarged Group
	Notes Note 1	2 & 3	Note 4	Note 5	Note 6	Note 7	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS							
Property, plant and equipment	948,587	843,944	172,459	-	-	-	1,964,990
Available-for-sale financial assets	213,550	-	-	-	-	-	213,550
Intangible assets	724,989	-	-	-	-	-	724,989
Goodwill	-	26,056	101,571	-	-	-	127,627
Other non-current assets	-	9,186	-	-	-	-	9,186
Total non-current assets	1,887,126	879,186	274,030	-	-	-	3,040,342
CURRENT ASSETS							
Trade receivables	55,592	151,173	(151,173)	-	-	-	55,592
Amount due from a fellow subsidiary	-	40,680	-	-	(40,680)	-	-
Prepayments, deposits and other receivables	375,757	80,138	-	-	-	-	455,895
Financial assets at fair value through profit or loss	200,235	33,900	-	-	-	-	234,135
Derivative financial assets – Derivative component of the convertible bonds	25,865	-	-	-	-	-	25,865
Time deposit and cash and bank balances	884,515	39,866	(520,304)	-	-	(1,945)	402,132
Total current assets	1,541,964	345,757	(671,477)	-	(40,680)	(1,945)	1,173,619

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF
THE ENLARGED GROUP**

	Pro forma adjustments						
	The Group as at 31 March 2017	The Target Group as at 31 December 2016	Other pro forma adjustments				The Enlarged Group
		Notes					
	Note 1	2 & 3	Note 4	Note 5	Note 6	Note 7	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CURRENT LIABILITIES							
Trade and other payables and accruals	80,026	9,721	36,900	-	-	-	126,647
Amount due to immediate holding company	-	498,129	(151,332)	(346,797)	-	-	-
Customers' deposits	317	-	-	-	-	-	317
Bank and other borrowings	40,619	221,989	-	-	(40,680)	-	221,928
Financial guarantee obligation	-	10,578	-	-	-	-	10,578
Total current liabilities	120,962	740,417	(114,432)	(346,797)	(40,680)	-	359,470
TOTAL ASSETS LESS							
CURRENT LIABILITIES	3,308,128	484,526	(283,015)	346,797	-	(1,945)	3,854,491
NON-CURRENT LIABILITIES							
Bank and other borrowings	792,468	505,607	-	-	-	-	1,298,075
Convertible bonds	326,759	-	-	-	-	-	326,759
Deferred tax liabilities	173,956	2,526	40,175	-	-	-	216,657
TOTAL NON-CURRENT LIABILITIES	1,293,183	508,133	40,175	-	-	-	1,841,491
NET ASSETS/(LIABILITIES)	2,014,945	(23,607)	(323,190)	346,797	-	(1,945)	2,013,000

(3) Notes to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities

1. The consolidated statement of assets and liabilities of the Group as at 31 March 2017 is extracted from the published annual results announcement of the Group for the year ended 31 March 2017.
2. The consolidated statement of assets and liabilities of the Target Group as at 31 December 2016 is extracted from the accountants' report on historical financial information of the Target Group as set out in Appendix II to this circular, which has been prepared in accordance with accounting policies of the Group. The consolidated statement of assets and liabilities of the Target Group is presented in Renminbi ("RMB") which is different from the presentation currency of the Group, i.e. HK\$. The assets and liabilities of the Target Group have been translated to HK\$.
3. For the purpose of preparing the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, the translation of RMB to HK\$ was made at a rate of RMB1 to HK\$1.13.
4. Upon the completion of the Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values as required by the acquisition method in accordance with Hong Kong Financial Reporting Standards ("HKFRS") 3 (Revised) "Business Combinations".

For the purpose of the unaudited pro forma financial information of the Enlarged Group and for illustrative purpose only, the allocation of the purchase price is determined based on (i) the carrying amount of the Target Group's identifiable assets and liabilities as at 31 December 2016 and (ii) estimated fair value adjustment on the Target Group's property, plant and equipment. The fair value of the Target Group's property, plant and equipment was determined after making reference to the valuation report prepared by an independent professional valuer. As a result, except for these fair value adjustments, the unaudited pro forma financial information does not include adjustments for the fair value of other identifiable assets and liabilities of the Target Group and recognition of additional intangible assets, if any.

Goodwill represents the excess of the consideration transferred over the net fair value of the Target Group's identifiable assets and liabilities measured at the date of acquisition. Goodwill is estimated as follows:

	HK\$'000
Equity Interest Consideration	-----557,045
Carrying amount of the Target Group's net liabilities as at 31 December 2016, excluding goodwill of HK\$26,056,000	----- (49,663)
Exclusion of the amount due to immediate holding company	346,797
Estimated fair value adjustment on the property, plant and equipment	172,459
Deferred tax liabilities arising from fair value adjustment on the property, plant and equipment	----- (40,175)
Goodwill	<u>127,627</u>

Pursuant to the terms of the Sale and Purchase Agreement, the cash consideration for the Acquisition is RMB644,977,000 (equivalent to approximately HK\$728,824,000), subject to the adjustments, which comprises:

- a) The Equity Interest Consideration of RMB492,960,000 (equivalent to approximately HK\$557,045,000); and
- b) The Vendor's Loans to the Target Group on a consolidated basis as at 30 September 2016 of RMB152,017,000 (equivalent to approximately HK\$171,779,000).

The aforesaid cash consideration to be financed by the Company's internal resources.

The consideration for Acquisition amounting to RMB430,715,000 (HK\$486,708,000) shall be paid by the Group upon the Completion Date, and the remaining part of the consideration RMB47,857,000 (HK\$54,079,000) to be paid upon all the discrepancies in the Target Project have been rectified by the Target Group and all the relevant compliance approvals in relation to the Target Project prescribed under the Sale and Purchase Agreement have been obtained by the Target Group.

The Equity Interest Consideration comprises of (a) the Accounts Receivable as at 30 September 2016 of RMB166,405,000 (equivalent to approximately HK\$188,038,000); and (b) the Remaining Equity Interest Consideration of RMB326,555,000 (equivalent to approximately HK\$369,007,000).

The Remaining Equity Interest Consideration to be satisfied in the following manners in accordance with the Sale and Purchase Agreement:

- a) The first 20% of the Equity Interest Consideration of RMB65,311,000 (equivalent to approximately HK\$73,801,000) to be paid upon signing the Sale and Purchase Agreement.
- b) The second 70% of the Remaining Equity Interest Consideration of RMB228,589,000 (equivalent to approximately HK\$258,306,000) to be paid upon the completion of the transaction.
- c) The final 10% of the Remaining Equity Interest Consideration of RMB32,655,000 (equivalent to approximately HK\$36,900,000) to be paid upon all the discrepancies in the Target Project have been rectified by the Target Group and all the relevant compliance approvals in relationship to the Target Project prescribed under the Sale and Purchase Agreement have been obtained by the Target Group.

Any amount of the above-mentioned Accounts Receivables to be received by the Target Group shall be paid by the Group to the Vendor upon the Completion. It is assumed that all the Accounts Receivables to be received by the Target Group before the Completion.

The Group shall procure the Target Group to settle 90% of the Vendor's Loans as at 30 September 2016 of RMB136,815,000 (equivalent to approximately HK\$154,601,000) upon the Completion Date if the amount of Vendor's Loans as stated in the management accounts at the Completion Date is lower than that as at 30 September 2016, the aforesaid amount payable should be adjusted to 90% of the Vendor's Loans as stated in these management accounts.

The remaining amount of the Vendor's Loans which to be adjusted in accordance with the audited accounts as at the Completion Date to be paid upon the date on which all the discrepancies in the Target Project have been rectified by the Target Group and all the relevant compliance approvals in relation to the Target Project prescribed under the Sale and Purchase Agreement have been obtained by the Target Group.

Pursuant to the Sale and Purchase Agreement, the consideration may be adjusted if the value of the Vendor's Loans to be adjusted in accordance with the audited accounts as at the Completion Date. For the purpose of this unaudited pro forma financial information, it is assumed that no adjustment to be made against the Vendor's Loans in accordance with the audited accounts as at the Completion Date.

The fair value of the identifiable assets and liabilities of the Target Group is subject to change upon completion of the Acquisition because the fair value of the identifiable assets and liabilities will be assessed and recorded on the completion date of the Acquisition.

The Company has consistently applied its accounting policies and assumptions for the purpose of assessing impairment of goodwill and other intangible assets in accordance with the Hong Kong Accounting Standard 36 "Impairment of Assets". Based on Directors' assessment, the Directors are not aware of any indication that an impairment of goodwill arising from the Acquisition is required.

The Company will consistently adopt its accounting policies and assumptions for the purpose of assessing impairment of goodwill in future.

5. It is assumed that the Target Group had paid an amount of RMB306,900,000 (equivalent to approximately HK\$346,797,000) to the Vendor (immediate holding company) before the Completion Date as this amount was actually settled on 10 March 2017.
6. It is assumed that the Vendor (immediate holding company)'s subsidiary had settled the outstanding balance of RMB36,000,000 (equivalent to approximately HK\$40,680,000) and the Target Group had repaid the same amount to the creditor before the Completion Date due to the fact that both balances were actually settled on 2 March 2017.
7. This adjustment represents accrual for incidental costs of HK\$1,945,000 incurred in connection with the Acquisition, which is the legal and professional fees, etc. It is assumed that the incidental costs have been settled by cash on or before the completion of the Acquisition.
8. No other adjustments have been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 March 2017 and 31 December 2016 respectively.

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the operation results and business review of the Target Group for (i) the period from 23 June 2015 (being the date on which the Vendor obtained control of the Project Company) to 31 March 2016 and (ii) the nine months ended 31 December 2016.

Business review

The Target Company was established under the laws of the PRC on 29 January 2016 and is an investment holding company. As at the Latest Practicable Date, the Target Company held the entire equity interest in the Project Company, being the principal asset of the Target Company. The Project Company owns and operates the Target Project, being a grid-connected solar power project with an installed capacity of 100 MW located in Jinchuan District, Jinchang City, Gansu Province, the PRC.

Save as disclosed above, the Target Company had not conducted any business activities since its incorporation and up to the Latest Practicable Date and did not have any other principal assets as at the Latest Practicable Date.

Revenue

The Target Group generates its entire revenue from the Target Project through the Project Company, which in turn generates its revenue primarily from the sales of electricity and the tariff subsidies. For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the major customer of the Project Company was the State Grid Company.

For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the revenue of the Target Group was approximately RMB66,296,000 and RMB58,911,000, respectively, of which approximately 27.16% and 20.81% were attributable to sale of electricity to the State Grid Company, and approximately 72.84% and 79.19% were attributable to the tariff subsidy for the sales of electricity received from the government authorities in respect of the Project Company's solar power generation business.

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

The following table sets forth a breakdown of the Target Groups' revenue for the periods indicated below:

	For the period from 23 June 2015 to 31 March 2016 (audited) RMB'000	For the nine months ended 31 December 2016 (audited) RMB'000
Sales of electricity	18,005	12,259
Tariff subsidy	<u>48,291</u>	<u>46,652</u>
Total	<u>66,296</u>	<u>58,911</u>

Cost of sales

The Target Group's cost of sales consists of depreciation, land use tax, plant maintenance expenses and other operational costs.

For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the cost of sales of the Target Group was approximately RMB37,060,000 and RMB36,947,000, respectively.

Gross profit

For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the gross profit of the Target Group was approximately RMB29,236,000 and RMB21,964,000, respectively.

Other gains and losses

Certain of the Target Group's components of solar power plant (including machineries and equipment) were made under finance leases. The other gains and losses of the Target Group consist of, among other things, gain on early redemption of obligations under finance lease, gain from the release of certain financial guarantee obligations and expenses from the penalty charges arising from early redemption of certain obligations under finance lease.

For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, net gains of approximately RMB295,000 and net losses of approximately RMB3,625,000 were recorded respectively.

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

Administrative expenses

The administrative expenses of the Target Group consist of notarization fees, financial guarantee fees, professional fees, entertainment and travelling expenses and other administrative expenses.

For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the administrative expenses of the Target Group was approximately RMB1,372,000 and RMB1,254,000, respectively.

Finance costs

The finance costs of the Target Group consist of the interest paid by the Target Group on (i) its obligations under certain finance leases, (ii) the guaranteed and secured bank borrowing which carried a fixed interest rate of 4.41% per annum for the period indicated below and (iii) the unguaranteed and secured borrowing which carried a fixed interest rate of 14% and 10% per annum before and after 31 March 2016, respectively.

For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the finance costs of the Target Group was approximately RMB42,344,000 and RMB24,027,000, respectively. The finance costs decreased as a result of the early redemption of the obligation of the finance lease in order to refinance the finance leases with effective interest rate of higher than 10% per annum with bank borrowings which only carried a fixed interest rate of 4.41% per annum.

The principal finance costs for the period from 23 June 2015 to 31 March 2016 was the interest on obligations under finance leases with an effective interest rate of higher than 10% per annum, whereas the principal finance costs for the nine months ended 31 December 2016 was the interest on bank borrowings with a fixed interest rate of 4.41% per annum.

Loss and total comprehensive expense

As a result of the factors above and the income tax credit, for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the loss and total comprehensive expense of the Target Group was approximately RMB14,056,000 and RMB6,835,000, respectively. The loss of the Target Group was primarily attributable to the depreciation of the solar power plant of RMB30,772,000 and RMB30,772,000 and the finance costs of RMB42,344,000 and RMB24,027,000 for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, respectively.

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Solar power plant

As at 31 March 2016 and 31 December 2016, the principal asset of the Target Group was the solar power plant, and the carrying value of which was approximately RMB777,598,000 and RMB746,826,000, respectively.

Liquidity, financial resources and capital structure

The following table sets forth a summary of the Target Group's financial position as at the dates indicated below:

	As at 31 March 2016 (audited) RMB'000	As at 31 December 2016 (audited) RMB'000
Non-current assets	874,526	827,613
Current assets	<u>653,109</u>	<u>256,407</u>
Total assets	<u>1,527,635</u>	<u>1,084,020</u>
Non-current liabilities	929,475	449,675
Current liabilities	<u>612,216</u>	<u>655,236</u>
Total liabilities	<u>1,541,691</u>	<u>1,104,911</u>
Net current assets (liabilities)	40,893	(398,829)
Net liabilities	(14,056)	(20,891)

The net liabilities of the Target Group increased from RMB14,056,000 as at 31 March 2016 to RMB20,891,000 as at 31 December 2016, primarily attributable to the operating loss for the nine months ended 31 December 2016. The Vendor subsequently made a capital contribution of RMB306,900,000 to the Target Company in March 2017.

Treasury policies

For the period from 23 June 2015 to 31 March 2016, the Target Group financed its working capital primarily through internally generated funds, finance lease, shareholder's loan and bank and other borrowings. For the nine months ended 31 December 2016, the Target Group financed its working capital primarily through internally generated funds, shareholder's loan and bank and other borrowings.

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The Target Group does not have any specific treasury policy on investment of financial products, but it invests its idle funds in financial products from time to time in view of earning higher return instead of depositing its funds in banks for interests.

The Target Group does not have any specific treasury policy on provision of guarantees, but it provided a financial guarantee to an Independent Third Party in favor of a bank enabling the Independent Third Party to obtain bank borrowing through the Project Company. Please refer to the section headed “Contingent liabilities” below for further details.

Bank balances and cash

As at 31 March 2016 and 31 December 2016, the bank balances and cash of the Target Group was approximately RMB501,648,000 and RMB35,280,000, respectively.

The significant decrease in bank balances and cash from 31 March 2016 to 31 December 2016 was primarily attributable to the repayment of obligations by the Target Group under the relevant finance lease. The bank balances and cash of the Target Group were all denominated in RMB.

Financial asset designated at fair value through profit or loss

As at 31 March 2016 and 31 December 2016, the financial asset designated at fair value through profit or loss of the Target Group was nil and RMB30,000,000, respectively.

On 28 June 2016, the Target Group acquired an unlisted financial product from a licensed financial institution at a cost of RMB30,000,000. The principal amount and investment return are unsecured, unguaranteed and carry at a variable rate of return based on the performance of underlying investment portfolio.

Bank and other borrowings

The bank and other borrowings of the Target Group consist of (i) the guaranteed and secured bank borrowing which carried a fixed interest rate of 4.41% per annum for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016 and (ii) the unguaranteed and secured borrowing which carried a fixed interest rate of 14% and 10% before and after 31 March 2016, respectively and (iii) unguaranteed and unsecured other borrowings which are interest-free and repayable on demand.

As at 31 March 2016, the bank and other borrowings of the Target Group was RMB586,369,000, which consists of the bank borrowing of RMB499,686,000 and the other borrowing of RMB84,483,000 and the unguaranteed and unsecured other borrowings of RMB 2,200,000. As at 31 December 2016, the bank and other borrowings of the Target Group was RMB643,890,000, which consists of the bank borrowing of RMB500,298,000, the unguaranteed and secured other borrowing of RMB105,392,000 and unguaranteed and unsecured other borrowings of RMB 38,200,000.

The bank borrowing was guaranteed by Shanghai Gorgeous for a one-off fee of approximately RMB9,992,000 from the Project Company prior to Shanghai Gorgeous becoming the controlling shareholder of the Company. The other borrowing was secured by restricted deposits as further disclosed in the section headed “Charge on assets” below.

Cash flow

The following table sets forth a summary of the cash flow of the Target Group extracted from the consolidated statements of cash flow of the Target Group for the periods indicated below:

	For the period from 23 June 2015 to 31 March 2016 (audited) RMB'000	For the nine months ended 31 December 2016 (audited) RMB'000
Net cash from operating activities	6,985	58,290
Net cash used in investing activities	(164,348)	(57,429)
Net cash from (used in) financing activities	659,011	(467,229)
Net increase (decrease) in cash and cash equivalents	501,648	(466,368)
Cash and cash equivalents at the end of the period	501,648	35,280

Gearing ratio

As at 31 March 2016 and 31 December 2016, the gearing ratio of the Target Group (calculated as a percentage of the total liabilities to total assets of the Target Group) was approximately 100.92% and 101.93%, respectively.

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Capital commitments

The Target Group did not have any capital commitments as at 31 March 2016 and 31 December 2016.

Hedging

The Target Group did not (i) enter into any financial instruments for hedging purposes and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016.

Significant investments held

Save for the entire equity interest in the Project Company, the Target Group did not hold other significant investment for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016.

Material acquisitions and disposals

Save for the acquisition of the entire equity interest in the Project Company by the Target Group as disclosed in the section headed “Information on the Target Group” in the “Letter from the Board” of this circular, the Target Group did not have other material acquisitions or disposals of subsidiaries, associates or joint ventures for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016. In addition, the Target Group has no specific future plans for material investments or capital assets.

Employees and remuneration policies

As at 31 March 2016 and 31 December 2016, the Target Group did not have any employees. For the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, the Target Group received services provided by the staff of the Vendor and their remuneration was borne by the Vendor and therefore the staff costs and director’s emolument was nil.

The remuneration borne by the Vendor is immaterial as there were only approximately 10 frontline staff members operating the Target Project. Upon Completion, the operation of the Target Group will be carried out by outsourced plant maintenance professionals, as the Group has not fully established and designated its own plant maintenance team solely for the Target Project subsequent to Completion. It is not uncommon for solar power plant operators to engage outsourced plant maintenance professionals through bidding or direct negotiation. Subject to agreements, the Group has also considered engaging the current staff provided by the Vendor as outsourced staff subsequent to Completion and prior to the establishment of a plant maintenance team by the Group. It is expected that the costs of such engagement will be approximately RMB6,000,000. As the costs of hiring such outsourced plant maintenance professionals are not expected to be material, and there

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

should not be any substantial change to the operation model of the Target Group, the aforementioned change in staff arrangement is not expected to have any material adverse effect on the performance and earnings of the Target Group.

The Target Group did not have any share option schemes.

Charges on assets

As at 31 March 2016 and 31 December 2016, the Target Company pledged (i) the following assets and (ii) its entire equity interest in the Project Company to a bank in order to obtain the bank borrowing which carried a fixed interest rate of 4.41% per annum:

	As at 31 March 2016 (audited) RMB'000	As at 31 December 2016 (audited) RMB'000
Restricted deposit	800	990
Trade receivables and accrued revenue on tariff subsidy	136,624	133,781
Machineries and equipment classified as solar power plant	<u>524,879</u>	<u>504,108</u>
Total	<u><u>662,303</u></u>	<u><u>638,879</u></u>

Exposure to fluctuations in exchange rates and related hedges

Substantially all of the Target Group's revenue, cost of sales and expenses are denominated in RMB. The Target Group also uses RMB as its reporting currency. The Directors believe that the Target Group's operations are not currently subject to any significant direct foreign exchange risk and the Target Group did not use any financial instruments to hedge its exposure to such risk.

Contingent liabilities

The Target Group, through the Project Company, provided a financial guarantee to an Independent Third Party in favor of a bank enabling the Independent Third Party to obtain bank borrowing. The total amounts of borrowing utilized by the Independent Third Party and guaranteed by the Target Group were RMB318,000,000 as at 31 March 2016 and 31 December 2016, respectively, of which financial guarantee obligation of RMB9,891,000 and RMB9,361,000 was recognized as at 31 March 2016 and 31 December 2016,

respectively. As at 31 March 2016 and 31 December 2016, the unrecognized amount of the contingent liabilities of the Target Group was RMB308,109,000 and RMB308,639,000, respectively.

Save as disclosed above, the Target Group did not have any other material contingent liabilities as at 31 March 2016 and 31 December 2016.

Dividend policy

No dividend was paid or proposed for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016.

Outlook and future prospects

The Target Group, through the Project Company, is principally engaged in the construction, operation and management of the Target Project, being a grid-connected solar power project with an installed capacity of 100 MW located in Jinchuan District, Jinchang City, Gansu Province, the PRC.

Demand for solar energy depends substantially on government incentives aimed to promote greater use of solar energy by lowering level of cost. The solar energy industry in the PRC has been rapidly growing and it is expected that there will be a continuous growth in domestic demand for solar energy in the PRC attributable to various supporting policies from the PRC government. For instance, pursuant to the 13th Five Year Plan of the PRC, the PRC targets to nearly triple its installed capacity for solar energy by 2020, by increasing the target solar capacity by 15 to 20 GW per year for the next five years. In addition, the Target Project owned by the Project Company has successfully achieved on-grid connection and enrolled in the Sixth Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (可再生能源電價附加資金補助目錄(第六批)) which enjoys the feed-in tariff benefits for renewable energy by the PRC government.

The Company expects that the positive regulatory developments in the solar energy industry in the PRC will continue and the Target Company will seek to capture the business opportunities promoted by the above official targets sets by the 13th Five Year Plan of the PRC and further develop the Target Project to strengthen its market position in the solar energy industry. The Target Company will also manage its capital and strive to continue as a going concern while further improving its profitability as a whole through optimization of its capital structure.

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PROJECT COMPANY

Set out below is the management discussion and analysis of the operation results and business review of the Project Company for (i) the period from 11 November 2013 (being the date of establishment) to 31 March 2014, (ii) the two years ended 31 March 2015 and 2016 and (iii) the nine months ended 31 December 2016.

Business review

The Project Company was established under the laws of the PRC on 11 November 2013. The Project Company owns and operates the Target Project, being a grid-connected solar power project with an installed capacity of 100 MW located in Jinchuan District, Jinchang City, Gansu Province, the PRC.

Revenue

The Project Company generates its entire revenue from the Target Project, which in turn generates its revenue primarily from the sales of electricity and the tariff subsidies. For the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, the major customer of the Project Company was the State Grid Company.

For the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, the revenue of the Project Company was approximately RMB13,136,000, RMB52,661,000, RMB94,800,000, RMB74,593,000 and RMB58,911,000, respectively, of which approximately 31.78%, 32.28%, 32.11%, 32.86% and 20.81% were primarily attributable to sale of electricity to the State Grid Company, and approximately 68.22%, 67.72%, 67.89%, 67.14% and 79.19% were attributable to the tariff subsidy for the sales of electricity received from the government authorities in respect of the Project Company's solar power generation business. The Project Company first recognized its revenue of RMB8,962,000 from tariff subsidy for the period from 11 November 2013 (being the date of its incorporation) to 31 March 2014 and upon the successful enrollment in the Sixth Catalogue for Additional Subsidies for Renewable Energy Electricity Prices* (可再生能源電價附加資金補助目錄(第六批)) in August 2016, the amount was fully recovered in November 2016.

The increase in revenue of approximately 300.89% for the year ended 31 March 2015 compared to the period from 11 November 2013 to 31 March 2014 was primarily attributable to the full year operation of the Target Project for the year ended 31 March 2015, as the Project Company only commenced its operation in late 2013. The increase in revenue of approximately 80.02% for the year ended 31 March 2016 compared to the year ended 31 March 2015 was primarily attributable to the Target Project commencing its

second phase of operation for a full year for the year ended 31 March 2015. The decrease in revenue of approximately 21.02% for the nine months ended 31 December 2016 compared to the nine months ended 31 December 2015 was primarily attributable to the restriction of power output by the local authorities in the PRC during the period.

The following table sets forth a breakdown of the Project Company's revenue for the periods indicated below:

	For the period from 11 November 2013 to 31 March 2014 (audited) RMB'000			Nine months ended 31 December 2015 (unaudited) RMB'000	
	Year ended 31 March 2015 (audited) RMB'000			2016 (audited) RMB'000	
Sales of electricity	4,174	16,998	30,440	24,512	12,259
Tariff subsidy	8,962	35,663	64,360	50,081	46,652
Total	13,136	52,661	94,800	74,593	58,911

Cost of sales

The cost of sales of the Project Company consists of depreciation, land use tax, plant maintenance expenses and other operational costs.

For the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, the cost of sales of the Project Company was approximately RMB6,121,000, RMB41,257,000, RMB48,907,000, RMB36,662,000 and RMB36,603,000, respectively.

The increase in cost of sales of approximately 574.02% for the year ended 31 March 2015 compared to the period from 11 November 2013 to 31 March 2014 was primarily attributable to the full year operation of the Target Project for the year ended 31 March 2015, as the Project Company only commenced its operation in late 2013. The increase in cost of sales of approximately 18.54% for the year ended 31 March 2016 compared to the year ended 31 March 2015 was primarily attributable to the increase in depreciation, plant maintenance expenses and other operational costs, which are partially offset by the decrease in land use tax. The cost of sales remained stable for the nine months ended 31 December 2016 compared to the nine months ended 31 December 2015, which was primarily attributable to the relatively stable cost structure of the Project Company after the Target Project had fully commenced its operation.

Gross profit

For the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, the gross profit of the Project Company was approximately RMB7,015,000, RMB11,404,000, RMB45,893,000, RMB37,931,000 and RMB22,308,000, respectively.

The increase in gross profit of approximately 62.57% for the year ended 31 March 2015 compared to the period from 11 November 2013 to 31 March 2014 was primarily attributable to the net effect of the significant increase in revenue and the less notable increase in cost of sales. The increase in gross profit of approximately 302.43% for the year ended 31 March 2016 compared to the year ended 31 March 2015 was primarily attributable to the net effect of the significant increase in revenue and the slight increase in cost of sales. The decrease in gross profit of approximately 41.19% for the nine months ended 31 December 2016 compared to the nine months ended 31 December 2015 was primarily attributable to the net effect of the decrease in revenue with the cost of sales remaining stable.

Other gains and losses

Certain of the Project Company's components of solar power plant (including machineries and equipment) were made under finance leases. The other gains and losses of the Project Company consist of, among other things, gain on early redemption of obligations under finance lease, gain from the release of certain financial guarantee obligations, and expenses from the penalty charges arising from early redemption of certain obligations under the relevant finance lease agreement and the initial recognition of certain financial guarantee obligations.

For the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, net gains/losses of nil, net losses of approximately RMB11,391,000, net gains of approximately RMB474,000, net gains of approximately RMB299,000 and net losses of approximately RMB3,625,000 were recorded, respectively.

The increase in net losses for the year ended 31 March 2015 compared to the period from 11 November 2013 to 31 March 2014 was primarily attributable to the initial recognition of the financial guarantee obligations pursuant to the financial guarantee provided by the Project Company to an Independent Third Party in favour of a bank enabling the Independent Third Party to obtain bank borrowing. The decrease in net losses for the year ended 31 March 2016 compared to the year ended 31 March 2015 was primarily attributable to absence of the aforementioned initial recognition of the financial guarantee obligations. The decrease in net gains for the nine months ended 31 December

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

2016 compared to the nine months ended 31 December 2015 was primarily attributable to the penalty charges of approximately RMB6,538,000 arising from early redemption of certain obligations under the relevant finance lease agreement.

Administrative expenses

The administrative expenses of the Project Company consist of notarization fees, financial guarantee fees, professional fees, entertainment and travelling expenses, and other administrative expenses. For the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, the administrative expenses of the Project Company was approximately RMB688,000, RMB3,821,000, RMB1,519,000, RMB1,290,000 and RMB1,248,000, respectively.

The increase in administrative expenses of approximately 455.38% for the year ended 31 March 2015 compared to the period from 11 November 2013 to 31 March 2014 was primarily attributable to the increase in professional fees. The decrease in administrative expenses of approximately 60.25% for the year ended 31 March 2016 compared to the year ended 31 March 2015 was primarily attributable to the decrease in professional fees. The administrative expenses of the Project Company remained stable for the nine months ended 31 December 2016 compared to the nine months ended 31 December 2015, which was primarily attributable to the net effect of the decrease in notarization fees and the increase in financial guarantee fee.

Finance costs

The finance costs of the Project Company consist of the interest paid by the Project Company on (i) its obligations under certain finance leases, (ii) the unsecured borrowing from Ningbo Tongce, the then shareholder of the Project Company during the period from 7 January 2014 to 23 June 2015, which carried a fixed interest rate of 13% per annum and repayable within one year (iii) the guaranteed and secured bank borrowing which carried a fixed interest rate of 4.41% per annum for the period indicated below and (iv) the unguaranteed and secured borrowing which carried a fixed interest rate of 14% and 10% before and after 31 March 2016, respectively.

For the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, the finance costs of the Project Company was nil, approximately RMB36,423,000, RMB55,077,000, RMB40,901,000 and RMB24,027,000, respectively.

The increase in finance costs for the year ended 31 March 2015 compared to the period from 11 November 2013 to 31 March 2014 was primarily attributable to the interest on the obligations under finance leases since 15 August 2014 and the interest on the borrowing from Ningbo Tongce. The increase in finance costs of approximately 51.21% for the year ended 31 March 2016 compared to the year ended 31 March 2015 was primarily attributable to the increase in the interest on the obligations under finance leases and the increase in the interest on the other borrowing, which were partially offset by the decrease in the interest on the borrowing from Ningbo Tongce due to the capitalization of such borrowing amounting to RMB304,900,000 pursuant to an agreement dated 17 December 2014 entered into between the Project Company and Ningbo Tongce. The decrease in finance costs of approximately 41.26% for the nine months ended 31 December 2016 compared to the nine months ended 31 December 2015 was primarily attributable to the significant decrease in the interest on obligations under finance leases due to the early redemption of such finance lease in April 2016, the effect of which was partially offset by the increase in the interest on the bank borrowing and the other borrowing.

Loss and total comprehensive expense

As a result of the factors above, for the period from 11 November 2013 to 31 March 2014, the profit and total comprehensive income of the Project Company was approximately RMB6,331,000, and for the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016, the loss and total comprehensive expense of the Project Company was approximately RMB29,627,000, RMB10,184,000, RMB3,918,000 and RMB6,571,000, respectively.

The loss of the Project Company for the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016 was primarily attributable to the depreciation of the solar power plant of RMB35,608,000, RMB40,572,000, RMB30,429,000 and RMB30,430,000 and the finance costs of RMB36,423,000, RMB55,077,000, RMB40,901,000 and RMB24,027,000, respectively.

Solar power plant

As at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, the principal asset of the Project Company was the solar power plant, and the carrying value of which was approximately RMB556,763,000, RMB808,893,000, RMB768,321,000 and RMB737,891,000, respectively.

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Liquidity, financial resources and capital structure

The following table sets forth a summary of the Project Company's financial position as at the dates indicated below:

	As at 31 March 2014 (audited) RMB'000	As at 31 March 2015 (audited) RMB'000	As at 31 March 2016 (audited) RMB'000	As at 31 December 2016 (audited) RMB'000
Non-current assets	606,602	878,095	842,184	795,615
Current assets	<u>25,687</u>	<u>76,923</u>	<u>653,109</u>	<u>220,407</u>
Total assets	<u><u>632,289</u></u>	<u><u>955,018</u></u>	<u><u>1,495,293</u></u>	<u><u>1,016,022</u></u>
Non-current liabilities	–	425,060	927,154	447,440
Current liabilities	<u>623,958</u>	<u>256,951</u>	<u>305,316</u>	<u>312,330</u>
Total liabilities	<u><u>623,958</u></u>	<u><u>682,011</u></u>	<u><u>1,232,470</u></u>	<u><u>759,770</u></u>
Net current (liabilities) assets	(598,271)	(180,028)	347,793	(91,923)
Net assets	8,331	273,007	262,823	256,252

Treasury policies

For the period from 11 November 2013 to 31 March 2014, the Project Company financed its working capital primarily through internally generated funds and other borrowings. For the year ended 31 March 2015, the Project Company financed its working capital primarily through internally generated funds and finance leases. For the year ended 31 March 2016, the Project Company financed its working capital primarily through cash flows generated internally from business operation, finance lease, shareholder's loan and bank and other borrowings. For the nine months ended 31 December 2016, the Project Company financed its working capital primarily through internally generated funds, shareholder's loan and bank and other borrowings.

The Project Company does not have any specific treasury policy on investment of financial products, but it invests its idle funds in financial products from time to time in view of earning higher return instead of depositing its funds in banks for interests.

The Project Company does not have any specific treasury policy on provision of guarantees, but it provided a financial guarantee to an Independent Third Party in favor of a bank enabling the Independent Third Party to obtain bank borrowing. Please refer to the section headed “Contingent liabilities” below for further details.

Bank balances and cash

As at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, the bank balances and cash of the Project Company was approximately RMB2,894,000, RMB2,322,000, RMB501,648,000 and RMB35,280,000, respectively.

The significant increase in bank balances and cash from 31 March 2015 to 31 March 2016 was primarily attributable to the fund raised from new bank and other borrowings and advance from shareholder. The significant decrease in bank balances and cash from 31 March 2016 to 31 December 2016 was primarily attributable to the repayment of obligations under finance lease and repayment of advance from shareholder. The bank balances and cash of the Project Company were all denominated in RMB.

Financial asset designated at fair value through profit or loss

As at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, the financial asset designated at fair value through profit or loss of the Target Group was nil, nil, nil and RMB30,000,000, respectively.

On 28 June 2016, the Project Company acquired an unlisted financial product from a licensed financial institution at a cost of RMB30,000,000. The principal amount and investment return are unsecured, unguaranteed and carry at a variable rate of return based on the performance of underlying investment portfolio.

Cash flow

The following table sets forth a summary of the Project Company's cash flow data from the consolidated statements of cash flow of the Project Company for the periods indicated below:

	For the period from 11 November 2013 to 31 March 2014 (audited) RMB'000	Year ended 31 March		Nine months ended 31 December	
		2015 (audited) RMB'000	2016 (audited) RMB'000	2015 (unaudited) RMB'000	2016 (audited) RMB'000
Net cash (used in) from operating activities	(1,135)	1,864	4,191	8,398	58,290
Net cash used in investing activities	(298,871)	(446,238)	(155,210)	(158,532)	(21,429)
Net cash from (used in) financing activities	302,900	443,802	650,345	152,730	(503,229)
Net increase (decrease) in cash and cash equivalents	2,894	(572)	499,326	2,596	(466,368)
Cash and cash equivalents at the end of the period/year, represented by bank balance and cash	2,894	2,322	501,648	4,918	35,280

Bank and other borrowings

The bank and other borrowings of the Project Company consist of (i) the guaranteed and secured bank borrowing which carried a fixed interest rate of 4.41% per annum for the period from 23 June 2015 to 31 March 2016 and the nine months ended 31 December 2016, (ii) the unguaranteed and secured borrowing which carried a fixed interest rate of 14% and 10% per annum before and after 31 March 2016, respectively, (iii) the unsecured borrowing from Ningbo Tongce which carried a fixed interest rate of 13% per annum and repayable within one year and (iv) the unguaranteed and unsecured other borrowings which is interest-free and repayable on demand.

As at 31 March 2014, the bank and other borrowings of the Project Company was RMB304,900,000, which solely consists of the borrowing from Ningbo Tongce. As at 31 March 2015, the bank and other borrowings of the Project Company was nil. As at 31 March 2016, the bank and other borrowings of the Project Company was RMB586,369,000, which consists of the bank borrowing and the other borrowing. As at 31 December 2016, the bank and other borrowings of the Project Company was RMB607,890,000, which consists of the bank borrowing and the other borrowing.

The bank borrowing was guaranteed by Shanghai Gorgeous for a one-off fee of approximately RMB9,992,500 from the Project Company prior to Shanghai Gorgeous becoming the controlling shareholder of the Company. The other borrowing was secured by restricted deposits as further disclosed in the section headed “Charge on assets” below.

Gearing ratio

As at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, the gearing ratio of the Project Company (calculated as a percentage of the total liabilities to total assets of the Project Company) was approximately 98.68%, 71.41%, 82.42% and 74.78%, respectively.

Capital commitments

Save for the capital commitment of the Project Company of RMB287,738,000 in respect of the construction of a solar power plant for the Target Project as at 31 March 2014, the Project Company did not have any other capital commitments as at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, respectively.

Hedging

The Project Company (i) did not enter into any financial instruments for hedging purposes and (ii) did not have any currency borrowings or other hedging instruments for foreign currency net investments for the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016.

Electricity Supply Agreement

In December 2013, the State Grid Company (as purchaser) and the Project Company (as vendor) entered into the Electricity Supply Agreement, pursuant to which the State Grid Company agreed to purchase and the Project Company agreed to sell, the electricity generated by the solar power plant of the Project Company. Pursuant to the Electricity Supply Agreement, the State Grid Company shall, among other things, (i) operate and maintain its power transmission facilities in accordance with the Grid Connection Agreement, and the relevant national standards and industry standards; (ii) regularly disclose information relevant to the Project Company, including the information on power load, spare capacity and operation of power transmission facilities; and (iii) provide the Project Company with the electricity required to re-activate the power generation unit pursuant to the relevant PRC regulations or as agreed between the parties. The Project Company shall, among other things, (i) operate and maintain its solar power plants in accordance with the relevant national standards, industry standards and integrated electricity management under the Grid Connection Agreement; (ii) ensure that the operation of its solar power plants achieves the required technical standards and meets the requirements implemented by relevant PRC authorities; (iii) provide the State Grid Company with monthly reports regarding indicators of reliability of the power generation unit and the condition of operation of facilities; and (iv) provide regular maintenance service for the power generation unit as agreed with the State Grid Company.

The annual supply of on-grid power generation shall be determined based on, among other things, (i) the estimated aggregate demand for the year; (ii) quota for on-grid power generation as determined by the government; and (iii) target amount of annual quota for power generation issued by the relevant PRC authorities. The implementation of the electricity pricing shall be subject to the approval or regulations of relevant PRC government authorities responsible for pricing.

Apart from the Electricity Supply Agreement, the Gansu Provincial Development and Reform Commission* (甘肅省發展和改革委員會) issued the “Notice in relation to the Issues concerning the Electricity Price of Grid-connected Solar Power Generation Enterprises with installed capacity of 50 MW located in Liangzhou District*” (《關於黃河水電涼州區50兆瓦等並網光伏發電企業上網電價有關問題的通知》) on 9 January 2014, pursuant to which the benchmark price of RMB1 per kWh (including tax) shall be applied to the Target Project.

Significant investments held

The Project Company did not hold other significant investment for the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Project Company did not have other material acquisitions or disposals of subsidiaries, associates or joint ventures for the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016. In addition, the Project Company has no specific future plans for material investments or capital assets.

Employees and remuneration policies

As at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, the total number of employees of the Project Company was 2, 4, nil and nil, respectively.

For the period from 11 November 2013 to 31 March 2014 and the year ended 31 March 2015 the staff costs of the Project Company was approximately RMB96,000 and RMB256,000, respectively. For the year ended 31 March 2016 and the two nine-month periods ended 31 December 2015 and 2016, the Project Company received services provided by the staff of the Vendor and their remuneration was borne by the Vendor, therefore the staff costs and director's emolument was nil.

The remuneration borne by the Vendor is immaterial as there were only approximately 10 frontline staff members operating the Target Project. Upon Completion, the operation of the Project Company will be carried out by outsourced plant maintenance professionals, as the Group has not fully established and designated its own plant maintenance team solely for the Target Project subsequent to Completion. It is not uncommon for solar power plant operators to engage outsourced plant maintenance professionals through bidding or direct negotiation. Subject to agreements, the Group has also considered engaging the current staff provided by the Vendor as outsourced staff subsequent to Completion and prior to the establishment of a plant maintenance team by the Group. It is expected that the costs of such engagement will be approximately RMB6,000,000 (approximately HK\$6,780,000). As the costs of hiring such outsourced plant maintenance professionals are not expected to be material, and there should not be any substantial change to the operation model of the Project Company, the aforementioned change in staff arrangement is not expected to have any material adverse effect on the performance and earnings of the Project Company.

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

The Project Company did not have any share option schemes, but it provides pension scheme to its employees in accordance with the relevant laws and regulations in the PRC as well as training programs for the employees with a view to constantly improving their skills and knowledge.

Charges on assets

As at 31 March 2015, the entire equity interest in the Project Company was pledged to a financial leasing company for the establishment of its solar power plant.

As at 31 March 2016 and 31 December 2016, the entire equity interest in the Project Company and the following assets of the Project Company were pledged to a bank in order to obtain the bank borrowing which carried a fixed interest rate of 4.41% per annum:

	As at 31 March 2014 (audited) RMB'000	As at 31 March 2015 (audited) RMB'000	As at 31 March 2016 (audited) RMB'000	As at 31 December 2016 (audited) RMB'000
Restricted deposit	–	–	800	990
Trade receivables and accrued revenue on tariff subsidy	–	–	136,624	133,781
Machineries and equipment classified as solar power plant	–	–	524,879	504,108
Total	<u>–</u>	<u>–</u>	<u>662,203</u>	<u>638,879</u>

Exposure to fluctuations in exchange rates and any related hedges

Substantially all of the Project Company's revenue, cost of sales and expenses are denominated in RMB. The Project Company also uses RMB as its reporting currency.

The Directors believe that the Project Company's operations are not currently subject to any significant direct foreign exchange risk and the Target Group did not use any financial instruments to hedge its exposure to such risk.

APPENDIX V MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP AND THE PROJECT COMPANY

Contingent liabilities

The Project Company provided a financial guarantee to an Independent Third Party in favor of a bank enabling the Independent Third Party to obtain bank borrowing. The total amounts of borrowing utilized by the Independent Third Party and guaranteed by the Project Company were RMB318,000,000 as at 31 March 2015, 31 March 2016 and 31 December 2016, respectively, of which financial guarantee obligations of RMB10,597,000 RMB9,891,000 and RMB9,361,000 was recognized as at 31 March 2015, 31 March 2016 and 31 December 2016, respectively. As at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016, the unrecognized amount of the contingent liabilities of the Project Company was nil, RMB307,403,000, RMB308,109,000 and RMB308,639,000, respectively.

Save as disclosed above, the Project Company did not have any other material contingent liabilities as at 31 March 2014, 31 March 2015, 31 March 2016 and 31 December 2016.

Dividend policy

No dividend was paid or proposed for the period from 11 November 2013 to 31 March 2014, the two years ended 31 March 2015 and 2016 and the two nine-month periods ended 31 December 2015 and 2016.

Outlook and future prospects

Please refer to the section headed “Management Discussion and Analysis of the Target Group – Outlook and future prospects” in this appendix for the outlook and future prospects of the Project Company.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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 this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) were as follows:

Interests in the Shares or underlying Shares of the Company:

Name of Directors/ chief executives	Capacity	Number of Shares interested (Note 1)	Approximate percentage of issued Shares
Mr. Ko Tin Kwok (Note 2)	Interest in a controlled corporation (Note 2)	4,092,084,312 (L)	43.65%

Notes:

- The letter “L” denotes a long position in Shares.

2. As at the Latest Practicable Date, Gorgeous Investment was the beneficial owner of 4,092,084,312 Shares. Gorgeous Investment was a wholly-owned subsidiary of Shanghai Gorgeous, which in turn was held by Shanghai Gu Yuan as to 75.66%. The equity interest of Shanghai Gu Yuan was held by Rich Crown and Creaton Holdings as to 59.79% and 40.21%, respectively. The equity interest of each of Rich Crown and Creaton Holdings was held by Mr. Ko Tin Kwok as to 99%. Mr. Ko Tin Kwok was therefore deemed to be interested in the Shares beneficially owned by Gorgeous Investment under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Persons who have an interest and/or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and chief executives of the Company, as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had, or were deemed or taken to have an interest or short position in the Shares and underlying Shares of the Company, which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity	Number of Shares interested (Note 1)	Approximate percentage of issued Shares
Gorgeous Investment	Beneficial owner	4,092,084,312 (L)	43.65%
Shanghai Gorgeous	Interest in a controlled corporation (Note 2)	4,092,084,312 (L)	43.65%
Shanghai Gu Yuan	Interest in a controlled corporation (Note 3)	4,092,084,312 (L)	43.65%
Rich Crown	Interest in a controlled corporation (Note 4)	4,092,084,312 (L)	43.65%

APPENDIX VI**GENERAL INFORMATION**

Name of Shareholders	Capacity	Number of Shares interested (Note 1)	Approximate percentage of issued Shares
Creaton Holdings	Interest in a controlled corporation (Note 4)	4,092,084,312 (L)	43.65%
Haitong International New Energy VIII Limited	Security interest in shares (Note 5)	1,800,000,000 (L)	19.20%
Haitong International Securities Group Limited	Interest in a controlled corporation (Note 5)	1,800,000,000 (L)	19.20%
Haitong International Holdings Limited	Interest in a controlled corporation (Note 5)	1,800,000,000 (L)	19.20%
Haitong Securities Co., Ltd	Interest in a controlled corporation (Note 5)	1,800,000,000 (L)	19.20%
Shanghai Electric Hongkong Co. Limited	Beneficial owner (Note 6)	825,958,700 (L)	8.81%
Shanghai Electric Group Company Limited	Interest of controlled Corporation (Note 6)	825,958,700 (L)	8.81%
Shanghai Electric (Group) Corporation	Interest of controlled Corporation (Note 6)	825,958,700 (L)	8.81%
Safe Castle Limited	Beneficial owner (Note 7)	777,736,000 (L)	8.30%
Coupeville Limited	Interest of controlled Corporation (Note 7)	777,736,000 (L)	8.30%
China Innovative Finance Group Limited	Interest of controlled Corporation (Note 7)	777,736,000 (L)	8.30%
Shandong Hi-Speed Investment Fund	Beneficial owner	831,000,000 (L)	8.86%
Shandong Hi-Speed Investment Fund Management	Interest of controlled Corporation (Note 8)	831,000,000 (L)	8.86%

Name of Shareholders	Capacity	Number of Shares interested (Note 1)	Approximate percentage of issued Shares
Shandong Hi-Speed Investment Holding	Interest of controlled Corporation (Note 9)	831,000,000 (L)	8.86%
Shandong Hi-Speed Group	Interest of controlled Corporation (Note 10)	831,000,000 (L)	8.86%
Dongying Yellow River	Interest of controlled Corporation (Note 11)	831,000,000 (L)	8.86%
Mr. Qing Zhongyue (秦中月)	Interest of controlled Corporation (Note 12)	831,000,000 (L)	8.86%
Rationale (Holdings) Investment	Beneficial owner	650,000,000 (L)	6.93%
Rationale Investment (Shanghai)	Interest of controlled Corporation (Note 13)	650,000,000 (L)	6.93%
China Minsheng New Energy	Interest of controlled Corporation (Note 14)	650,000,000 (L)	6.93%
China Minsheng Investment	Interest of controlled Corporation (Note 15)	650,000,000 (L)	6.93%

Notes:

1. The letter “L” denotes a long position in the shares.
2. As at the Latest Practicable Date, Gorgeous Investment was a wholly-owned subsidiary of Shanghai Gorgeous and Shanghai Gorgeous was therefore deemed to have an interest in all the Shares beneficially owned by Gorgeous Investment under the SFO.
3. As at the Latest Practicable Date, the equity interest of Shanghai Gorgeous was held by Shanghai Gu Yuan as to 75.66% and Shanghai Gu Yuan was therefore deemed to have an interest in all the Shares in which Shanghai Gorgeous was interested under the SFO.
4. As at the Latest Practicable Date, the equity interest of Shanghai Gu Yuan was held by Rich Crown and Creaton Holdings as to 59.79% and 40.21%, respectively. Rich Crown and Creaton Holdings were therefore deemed to have an interest in the Shares in which Shanghai Gu Yuan was interested under the SFO.

5. As at the Latest Practicable Date, 1,800,000,000 Shares were charged in favour of Haitong International Securities Company Limited pursuant to the loan facility and in favour of Haitong International New Energy VIII Limited to secure the bonds issued by Gorgeous Investment. Haitong International New Energy VIII Limited was a wholly-owned subsidiary of Haitong International Securities Group Limited, which was directly owned by Haitong International Holdings Limited as to 60.91%. Haitong International Holdings Limited was directly owned by Haitong Securities Co., Limited as to 100%.
6. As at the Latest Practicable Date, Shanghai Electric Hongkong Co. Limited was a wholly-owned subsidiary of Shanghai Electric Group Co. Limited (Stock Code: 2727), which was in turn 55.05% owned by Shanghai Electric (Group) Corporation.
7. As at the Latest Practicable Date, 777,736,000 Shares were held by Safe Castle Limited, a wholly-owned subsidiary of Coupeville Limited, which in turn was a wholly-owned subsidiary of China Innovative Finance Group Limited. China Innovative Finance Group Limited (Stock Code: 412) is a listed company in the Stock Exchange. Accordingly, Coupeville Limited and China Innovative Finance Group Limited were deemed to be interested in these Shares under the SFO.
8. As at the Latest Practicable Date, Shandong Hi-Speed Investment Fund was a wholly-owned subsidiary of Shandong Hi-Speed Investment Fund Management and Shandong Hi-Speed Investment Fund Management was therefore deemed to have an interest in all the Shares beneficially owned by Shandong Hi-Speed Investment Fund under the SFO.
9. As at the Latest Practicable Date, the equity interest of Shandong Hi-Speed Investment Fund Management was held by Shandong Hi-Speed Investment Holding as to 49% and Shandong Hi-Speed Investment Holding was therefore deemed to have an interest in all the Shares in which Shandong Hi-Speed Investment Fund Management was interested under the SFO.
10. As at the Latest Practicable Date, Shandong Hi-Speed Investment Holding was a wholly-owned subsidiary of Shandong Hi-Speed Group and Shandong Hi-Speed Group was therefore deemed to have an interest in all the Shares in which Shandong Hi-Speed Investment Holding was interested under the SFO.
11. As at the Latest Practicable Date, the equity interest of Shandong Hi-Speed Investment Fund Management was held by Dongying Yellow River as to 41% and Dongying Yellow River was therefore deemed to have an interest in all the Shares in which Shandong Hi-Speed Investment Fund Management was interested under the SFO.
12. As at the Latest Practicable Date, the entire equity interest of Dongying Yellow River was owned by Mr. Qin Zhongyue and Mr. Qin Zhongyue was therefore deemed to have an interest in all the Shares in which Dongying Yellow River was interested under the SFO.

13. As at the Latest Practicable Date, Rationale (Holdings) Investment was a wholly-owned subsidiary of Rationale Investment (Shanghai) and Rationale Investment (Shanghai) was therefore deemed to have an interest in all the Shares beneficially owned by Rationale (Holdings) Investment under the SFO.
14. As at the Latest Practicable Date, Rationale Investment (Shanghai) was a wholly-owned subsidiary of China Minsheng New Energy and China Minsheng New Energy was therefore deemed to have an interest in all the Shares in which Rationale Investment (Shanghai) was interested under the SFO.
15. As at the Latest Practicable Date, the equity interest of China Minsheng New Energy was held by China Minsheng Investment as to 90% and China Minsheng Investment was therefore deemed to have an interest in all the Shares in which China Minsheng New Energy was interested under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. DIRECTORS' INTERESTS

(a) Interests in contract or arrangement

Save for the Shanghai Gorgeous Guarantee as disclosed in the section headed "Information on the Target Group – Shanghai Gorgeous Guarantee" in the "Letter from the Board" in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since 31 March 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(c) Interests in competing business

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder).

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which is not expiring or terminable by the Company or any of its subsidiaries within one year without payment of any compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, no litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

6. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business) had been entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

- (a) the acquisition agreement dated 17 June 2015 entered into by 天合智慧能源有限公司 (Tianhe Smarter Energy Company Limited*), a wholly-owned subsidiary of the Company (as the purchaser) and 上海華星電器有限公司 (Shanghai Hua Xing Electronic Company Limited*) (as the vendor) in respect of the acquisition of the entire equity interest in 上海昕嵐電力有限公司 (Shanghai Xin Lan Electric Company Limited*) for the consideration of RMB10,000,000 (please refer to the announcement of the Company dated 17 June 2015 for further details);
- (b) the subscription agreements each dated 14 July 2015 entered into by the Company (as the issuer) and each of Cheer Hope Holdings Limited, Zhongtai Financial Investment Limited, Haitong International Financial Products Limited and Taiping Trustees Limited (as the subscribers) in respect of the issue and subscription of the convertible bonds in the aggregate principal amount of US\$80,000,000 under general mandate; the convertible bonds were convertible into a total of 571,481,039 Shares at the initial conversion price of HK\$1.0891 per Share; the issue was completed on 30 July 2015 with net proceeds of approximately US\$79.8 million (please refer to the announcements of the Company dated 14 July 2015 and 30 July 2015 for further details);

- (c) the sale and purchase agreement dated 30 June 2016 entered into by the Company (as the purchaser) and Cheer Hope Holdings Limited (as the vendor), pursuant to which the Company agreed to repurchase the convertible bonds in the principal amount of US\$30,000,000 from Cheer Hope Holdings Limited at their principal amount together with interest accrued and unpaid thereon from up to (and excluding) the completion date; completion of the repurchase took place on 27 July 2016 (please refer to the announcement of the Company dated 27 July 2016 for further details);
- (d) the subscription agreement dated 15 November 2016 entered into between the Company (as the issuer) and Rationale (Holdings) Investment (as the subscriber), pursuant to which the subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 650,000,000 new Shares at the subscription price of HK\$0.65 per subscription share; the completion of the subscription took place on 6 December 2016 (please refer to the announcements of the Company dated 15 November 2016 and 6 December 2016 for further details);
- (e) the subscription agreement dated 15 November 2016 entered into between the Company (as the issuer) and Shandong Hi-Speed Investment Fund (as the subscriber), pursuant to which the subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 831,000,000 new Shares at the subscription price of HK\$0.65 per subscription share; the completion of the subscription took place on 6 December 2016 (please refer to the announcements of the Company dated 15 November 2016 and 6 December 2016 for further details);
- (f) the subscription agreement dated 15 November 2016 entered into between the Company (as the issuer) and Multiple Upbeat Investments Limited (as the subscriber), pursuant to which the subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, 79,000,000 new Shares at the subscription price of HK\$0.65 per subscription share; the completion of the subscription took place on 6 December 2016 (please refer to the announcements of the Company dated 15 November 2016 and 6 December 2016 for further details);
- (g) the sale and purchase agreement dated 31 March 2017 entered into between the Purchaser, Minsheng New Energy Shanghai and Dezhou Jiayang, pursuant to which the Purchaser conditionally agreed to acquire, and Minsheng New Energy Shanghai conditionally agreed to sell, the entire equity interest in Dezhou Jiayang, a company that owns and operates the 10 MW rooftop photovoltaic power generation project located in Dezhou City, Shandong Province, for the consideration of RMB15,300,000 (approximately HK\$17,289,000) and the Purchaser agreed to assume certain liabilities of Minsheng New Energy Shanghai in the aggregate amount of RMB66,614,000 (approximately HK\$75,274,000) (please refer to the announcement of the Company dated 2 April 2017 for further details of the proposed acquisition);

- (h) the sale and purchase agreement dated 31 March 2017 entered into between the Purchaser, Minsheng New Energy Investment and Changfeng Hongyang, pursuant to which the Purchaser conditionally agreed to acquire, and Minsheng New Energy Investment conditionally agreed to sell, the entire equity interest in Changfeng Hongyang, a company that owns and operates the 20 MW distributed photovoltaic power generation project located in Changfeng County, Hefei City, Anhui Province, for the consideration of RMB75,525,000 (approximately HK\$85,343,000) and the Purchaser agreed to assume certain liabilities of Minsheng New Energy Investment in the aggregate amount of RMB136,317,000 (approximately HK\$154,038,000) (please refer to the announcement of the Company dated 2 April 2017 for further details of the proposed acquisition);
- (i) the sale and purchase agreement dated 31 March 2017 entered into between the Purchaser, Minsheng New Energy Investment and Gaoan Jinjian, pursuant to which the Purchaser conditionally agreed to acquire, and Minsheng New Energy Investment conditionally agreed to sell, the entire equity interest in Gaoan Jinjian, a company that owns and operates the 20 MW distributed photovoltaic power generation project located in Jianshan Town, Gaoan City, Jiangxi Province, for the consideration of RMB51,941,000 (approximately HK\$58,693,000) and the Purchaser agreed to assume certain liabilities of Minsheng New Energy Investment in the aggregate amount of RMB118,471,000 (approximately HK\$133,872,000) (please refer to the announcement of the Company dated 2 April 2017 for further details of the proposed acquisition); and
- (j) the Sale and Purchase Agreement.

7. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualification of the experts who have provided their opinion or advice, which are contained in this circular.

Name	Qualification
Li, Tang, Chen & Co.	Certified Public Accountants, Hong Kong
Deloitte Touche Tohmatsu	Certified Public Accountants, Hong Kong

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statements and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above experts were not beneficially interested in the share capital of any member of the Enlarged Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Enlarged Group nor did they have any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group since 31 March 2017 (being the date to which the latest published audited financial statements of the Group were made up).

Each of the “Appendix II – Accountants’ Report of the Target Group” and the “Appendix III – Accountants’ Report of the Project Company” is given by Deloitte Touche Tohmatsu as at the date of this circular for incorporation herein.

The “Appendix IV – Unaudited Pro Forma Financial Information of the Enlarged Group” is given by Li, Tang, Chen & Co. as at the date of this circular for incorporation herein.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on a business day in Hong Kong at the principal place of business of the Company in Hong Kong at Room 3205-08, 32/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong, from the date of this circular up to and including 4 August 2017, being the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the letter from the Board, the text of which is set out in the “Letter from the Board” in this circular;
- (c) the accountants’ report from Deloitte Touche Tohmatsu of the Target Group, the text of which is set out in Appendix II to this circular;
- (d) the accountants’ report from Deloitte Touche Tohmatsu of the Project Company, the text of which is set out in Appendix III to this circular;
- (e) the report on unaudited pro forma financial information on the Enlarged Group from Li, Tang, Chen & Co., the text of which is set out in Appendix IV to this circular;
- (f) the written consent referred to in the section headed “Experts’ Qualifications and Consents” in this appendix;
- (g) the material contracts referred to in the section headed “Material Contracts” in this appendix;

- (h) the annual reports of the Company for the years ended 31 December 2015 and 2016; and
- (i) this circular.

9. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Suen To Wai. Mr. Suen is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The English text of this circular shall prevail over the Chinese text in case of inconsistency.
- (c) The legal address of the Company in Bermuda is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (d) The principal place of business of the Company in Hong Kong is Room 3205-08, 32/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

* *For identification purposes only*

NOTICE OF SGM



CHINA SMARTER ENERGY GROUP HOLDINGS LIMITED

中國智慧能源集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1004)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of China Smarter Energy Group Holdings Limited (the “**Company**”) will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai Hong Kong on Friday, 4 August 2017 at 2:30 p.m., or any adjournment thereof, for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as ordinary resolution of the Company. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 30 June 2017.

ORDINARY RESOLUTION

“**THAT**

- (a) the sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 31 March 2017 entered into between (i) Shanghai Gorgeous Smarter Energy Company Limited* (上海國之杰智慧能源有限公司)(the “**Purchaser**”), an indirect wholly-owned subsidiary of the Company, (ii) Shanghai Guxin Asset Management Company Limited* (上海谷欣資產管理有限公司)(the “**Vendor**”), and (iii) Qingdao Guxin Electricity Investment Company Limited* (青島谷欣電力投資有限公司)(the “**Target Company**”), pursuant to which, among other things, the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, the entire equity interest in the Target Company, for an aggregate consideration of RMB644,977,000 (approximately HK\$728,824,000) (subject to the adjustment pursuant to the Sale and Purchase Agreement) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified in all respects; and

NOTICE OF SGM

- (b) any one of the directors of the Company (the “**Director**”) be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his/her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

By order of the board of directors of
China Smarter Energy Group Holdings Limited
Wang Hao
Chairman and Chief Executive Officer

Hong Kong, 30 June 2017

Notes:

1. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint a proxy to attend and vote on his/her behalf, subject to the bye-laws of the Company. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her to attend and vote on his/her behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the SGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. Where there are joint holders of any share, any one of such joint holders may vote at the SGM, either personally or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, then the one of such joint holders so present whose name stands first on the register of members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.
5. The resolution at the SGM will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.
6. The register of members of the Company will be closed from Tuesday, 1 August 2017 to Friday, 4 August 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the SGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration by 4:30 p.m. on Monday, 31 July 2017.

As at the date of this notice, the board of Directors comprises nine Directors, of whom six are executive Directors, namely Mr. Wang Hao, Mr. Ko Tin Kwok, Ms. Zhao Li, Mr. Lam Kwan Sing, Mr. Hon Ming Sang and Mr. Hu Hanyang; and three are independent non-executive Directors, namely Mr. Fok Ho Yin, Thomas, Mr. Li Hui and Mr. Lam Cheung Mau.

* For identification purposes only