UNITED PHOTOVOLTAICS

UNITED PHOTOVOLTAICS GROUP LIMITED

Hong Kong Stock Code: 00686



ANNUAL REPORT 2016



CONTENT

Letter to Investors	2
Company Profile	10
Corporate Information	11
Biographies of Directors and Senior Management	12
2016 Highlights	16
2016 Awards	20
Investor Relations	24
Management Discussion and Analysis	26
Report of Corporate Governance	42
Directors' Report	63
Independent Auditor's Report	77
Consolidated Statement of Profit or Loss	85
Consolidated Statement of Comprehensive Income	86
Consolidated Statement of Financial Position	87
Consolidated Statement of Changes in Equity	89
Consolidated Statement of Cash Flows	90
Notes to the Financial Statements	91
Five-year Financial Summary	167
Information for Investors	168



Letter to Investors



Dear valued investors,

In 2016, the global economy still had a great deal of uncertainties in various aspects as a result of the global economic slowdown and the growing indetermination about international politics and systems. However, the international community unanimously ratified the Paris Agreement, the world's first convention on climate in force in November 2016, for environmental protection during the year. In face of deteriorating climate and environmental conditions, development of clean and renewable energy has become global consensus, and the world has entered into a new phase of green and low-carbon development.

Meanwhile, as a big and responsible developing country, China attaches great importance to its international and domestic obligations in the process of green development. China's paramount leaders solemnly undertook at the United Nations Climate Change Conference and other international occasions that the proportion of non-fossil energy in primary

Letter to Investors

energy consumption will reach about 15% by 2020 and about 20% by 2030. As the Paris Agreement has come into force, the commitments will be promoted to national legal obligations and binding indicators to be fulfilled. In order to put these targets into practice, the PRC government has made internal adjustment and innovation and strengthened the external cooperation with other countries using methods such as "the Belt and Road" initiative ("B&R").

In this historical context, United Photovoltaics Group Limited ("United PV" or the "Company", together with its subsidiaries, the "Group") upheld the spirit of "integrating ingenuity and structural innovation", to continuously consolidate its leading position in the domestic market and achieve an accumulated installed capacity of 1,291.4 MW and an annual power generation volume of 1.346 billion kilowatt-hours. On the other hand, it captured the opportunities for overseas growth and actively explored international presence. Meanwhile, it further widened its financing channels and innovative means of financing to optimize its capital structure and consolidated its leading position in the field of green finance. I hereby announce the results of United PV for the year ended 31 December 2016 on behalf of the Board. In 2016, the Group achieved revenue of RMB988 million, representing an increase of 58% compared to last year. The Group recorded EBITDA of RMB841 million, representing a year-on-year increase of 75%. The net profit of the Group increased to RMB382 million.

Building a Global Resources Integration Platform by Introducing Leading International Investment Institutions

It is the common practice across the globe to strengthen international cooperation and make greater efforts to develop renewable energy for economic and social sustainable development in face of increasing impact of climate changes and extreme weather. We introduced leading international investment institutions to optimize our shareholding structure and strengthened our international competitiveness against this backdrop. ORIX Corporation ("ORIX") and Asia Climate Partners ("ACP") under Asian Development Bank ("ADB") are our prioritized partners, which have been the leading international financial institutions increasing investment in the field of environmental protection and new energy (including solar energy) across the world, especially Asia, in recent years.



Letter to Investors

In September 2016, we announced that ORIX would become the Company's second largest shareholder and long-term strategic partner. In March 2017, ORIX and ACP became the second and the third largest strategic shareholder respectively. ORIX is not only a diversified international large-scale integrated financial services group, but also the largest investor and operator of renewable energy in Japan. Listed on the New York Stock Exchange and the Tokyo Stock Exchange, ORIX currently has branches in 36 countries and regions. It engages in dozens of industries mainly included environmental new energy and finance. In 2015, ORIX and ADB jointly set up ACP, focusing on investing in the renewable energy industry. ADB has many years of experience in clean energy investment and has invested heavily in clean energy each year. ACP incorporates the unique strengths of ORIX and ADB, focusing on the development of quality enterprises in clean energy, resource efficiency and environmental protection in order to make a long-term strategic cooperation target. ORIX's becoming a shareholder is not only the recognition of United PV's achievement in the field of new energy and the best convincing proof of potential for sustainable development in the future, but will also greatly enhance United PV's capabilities to develop global business and integrate global new energy resources. Leveraging on its know-how from environmental protection and energy related business, United PV and ORIX will ally to strategically work together in the areas of acquiring overseas renewable energy project, solar power plant technology and sharing operational experience.

This initiative symbolizes the transformation and upgrade of United PV from "a top runner of photovoltaic industry in China" to "a model of global energy transformation". Looking forward, United PV will put more effort to cooperate with the outstanding operators of global new energy industry, and open up the resources network around the world. It will also promote the Group's investment in the field of global new energy to build United PV into a platform integrating capital, technology and talents of global new energy leveraging on the international influence of major shareholders, such as CMNE and ORIX.

Being a Green Explorer of "B&R" by Constructing Panda Solar Power Plant

In 2016, the initiative of "B&R" leaped forward from a new starting point after the overseas visit of China's paramount leaders, providing opportunities for new energy enterprises in China to "go out". As directed by the national strategy, China continuously speeded up the export of energy infrastructure to countries and regions along the "B&R" routes. United PV capitalized on the development opportunities of "B&R" to actively respond to the national call.

On 1 September 2016, we entered into strategic cooperation agreement with the United Nations Development Programme (UNDP) to work together to launch the programme of "youth engagement and innovation to promote sustainable development of panda solar power plant" and to build panda solar power plants. In November 2016, the world's first panda solar power plant utilizing the advanced technology from China and the United States and the panda youth summer camp were launched in Datong, Shanxi Province, China. The panda solar power plant in Datong is not only a flagship project for the Sino-US cooperation, but also a flagship project for our "B&R" strategy. We will accelerate the construction of panda solar power plants in countries and regions along the "B&R" routes, provide an array of energy solutions to them and export Chinese technology, Chinese equipment and Chinese experience, in order to offer a cooperation platform for the enterprises in China to go out.

Letter to Investors

The panda solar power plant not only serves as a global utilization of advanced production capacity, but also an eco-export of advanced lifestyle philosophy, which will enhance the international community's understanding of the Chinese enterprises and Chinese power and build strength in response to global climate changes. In the future, the panda solar power plant will act as green explorers of new energy to bring environmental-friendly clean and sustainable energy to countries along the "B&R" routes, based on which a model project of energy technology will be built to raise the issue of regional energy accessibility drawing upon the experience gained from specific cases, thereby facilitating the regional economic development and sharing the results of the development of modern civilization.

Expanding Global Presence by Acquiring UK Projects

Being one of the first enterprises acquiring and operating solar power plants in China, United PV gained extensive experience in acquiring solar power plants through steady development in domestic market. It leveraged its accurate judgement about the international market to capture the opportunities of rapid development of international solar energy industry and expand the global market proactively and stably.

The acquisition of six solar power plants with an aggregate installed capacity of 82.4MW in the UK was announced by the Company in September 2016. In January 2017, we completed the transaction that was known as the first overseas new energy projects acquisition by China new energy enterprise after the Brexit, and gained access to the UK market. The entry to the UK solar power market symbolizes a new starting point for us, which enables the Company to gain international competitive advantages and nurture a team of professional management who are familiar with international business operations, thereby laying a solid foundation for United PV to be a multinational enterprise with global influence in the future.

When expanding overseas business, we place risk control as our first priority to reduce and avoid risks through various ways. We choose the developed countries with relatively stable legal and business environment to make progress steadily. After accumulating certain experience of overseas operation in these countries and enhancing its capability of risks control, we will expand its business to the emerging countries.

In addition, we fully understand the policies, regulations and market conditions of the target investing countries. To keep abreast of the latest policies and market information, our overseas enterprises division tracks tariffs and changes of subsidy policies of various countries regularly, maintains close liaison with the competent authorities of new energy industry of various countries, and makes extensive efforts to keep in touch with local players of new energy industry. In assessing the overseas solar power projects, we investigate the individual risk assessment of the location of the projects by the Ministry of Commerce, banking and insurance institutions in the aspects of politics, economics, culture and business tax. Meanwhile, we contact China's Consulate General and other overseas institutions for advice on the local situations. We will engage accounting firms, law firms or other third-party professional institutions for professional investigation if needed, to have more in-depth understanding of the situation. Also, stringent selection criteria are used to ensure the overseas projects achieve a certain level of investment yield.

Letter to Investors

Reducing the Enterprise Leverage Ratio via Flexible and Diversified Financing Channels

To a global enterprise with core competitiveness, flexible and diversified financing channels are of vital importance. To cope with the complex and ever-changing internal and external economic and financial conditions, we have to continuously adjust our monetary portfolio, and adopt diversified financing methods and open up funding channels to reduce borrowing costs in comprehensive consideration of the interest rates, exchange rates and currency market conditions. In addition to project borrowings, financial leasing, and issuing convertible bonds, we were granted foreign bond financing for the first time this year, and successfully issued 3-year US$250 million senior notes in January 2017. This is the world's first green energy USD bonds in response to climate changes after the Paris Agreement becoming effective, and is the first USD bonds issued by a solar power enterprise in China. It has been recognized and well-received by the leading international financial institutions, with orders of more than US$600 million. In February, we issued additional 3-year US$100 million senior notes with 101.92% of the principal amount. In December 2016, United PV completed the placement of 100 million new shares to China Huarong and China Minsheng, and the subsidiary which is domestically wholly-owned by the Group obtained the approval from the National Association of Financial Market Institutional Investors to issue RMB700 million medium term notes. The proceeds will be used to enhance our capital structure and expand room for business development of the Company, thereby laying a solid foundation for healthy growth in the future.

Prospects

In 2017, the domestic new energy industry has entered into a stable development period in an era of opportunity and challenge. As a major driver for energy structure adjustment in China, we have confidence in the future development of the industry. We will be more active in grasping the development opportunities in the industry, adhere to the development values of "integrating ingenuity and structural innovation" guided by the long-term strategies of the Company, continuously improve profitability, effectively allocate resources, constantly enhance the group-oriented management and build core competitive advantages. We will also proactively promote the Company's going-out strategy of "B&R", to maximize the market margins and expand the business scale by entering the international market and achieving a global footprint, thereby meeting the target of building multi-national operations for PRC's enterprises and ensuring the sustainable development of the Company. Moreover, we will adhere to solid financial policies, optimize our debt structure, and proactively and steadily reduce the enterprise leverage ratio, so as to reinforce the foundation for the Company's growth in a sustainable and healthy manner over the longer term.

Letter to Investors

Lastly, on behalf of the Board and the management team of the Company, I would like to express my sincere gratitude to all shareholders, investors and friends from all circles in society for their continuous trust and support to the Company, and thank all employees of United PV for their hard work and achievements.

/Signature/Li, Alan
Chairman of the Board, Executive Director and Chief Executive Officer
Li, Alan

30 March 2017

Consolidating domestic reserves solidly

Opening up overseas markets successfully



① Nottingham
14.1MW



③ Northamptonshire
21.6MW



④ Oxfordshire
10.5MW



② Oxfordshire
12.8MW



⑤ Cumbria
18.3MW



⑥ Northamptonshire
5.2MW



England
Europe
France
Spain
Mediterranean
Western Asia
Djibouti


China's First Large-Scale Solar Power Plant on Desert 100MW
the National "Top Runner" Project 100MW
120MW
Xinjiang
330MW
Inner Mongolia
37.29MW
Hebei
Gansu
200MW
Ningxia
Shanxi
40MW
Shandong
200MW
Qinghai
Jiangsu
the Largest Solar Power Plant on Hills in Central China 100MW
Hubei
Eco-Agricultural Project 23.8MW
54.8MW
Yunnan
Guangdong
Solar Power Plants under Maritime Climate 2.8MW
Russia
Central Asia
China
Pakistan
Shanxi, China
South Asia
the South China Sea
Southeast Asia
Philipines
Sri Lanka
Indian Ocean
Australia
Fiji
Strategy map of China's "Belt and Road" initiative
Planning map of United PV's global green energy
Note: Installed capacity as at 30 March 2017

Company Profile

United Photovoltaics Group Limited ("United PV" or the "Company", together with its subsidiaries, the "Group") is the largest pure investor and operator of solar power plants in China, focusing on the investment and operation of solar power generation and new energy businesses. As of 31 December 2016, the Group beneficially owned solar 31 power plants with an aggregate installed capacity of 1,291.4MW and an annual power generation volume of 1.346 billion kilowatt-hours, spreading across 13 provinces, municipalities and autonomous regions.

United PV is China's first Hong Kong listed company specializing in the investment and operation of solar power plants. It develops, acquires and operates solar power plants around the world by utilizing advanced technology and equipment and integrating domestic and international capital. Since its establishment, United PV has always adhered to innovation, and has gained extensive experience in developing, acquiring, operating, managing power plants, corporate governance and resources integration. In terms of developing power plants, United PV, being a top runner of the photovoltaic industry in China, is the first listed company in Hong Kong shortlisted for the national "Top Runner" Project and successfully launched the 100MW national "Top Runner" solar power plant project in Datong, Shanxi Province. Leveraging on its outstanding performance in developing power plants, United PV won the bids for the exclusive right to develop and operate two "Top Runner" projects in Baotou, Inner Mongolia and north and south of the Huai River, Anhui in 2016, once again being the "top runner" of the photovoltaic industry in China. In respect of operation and management, United PV oversees and manages its operations remotely and centrally via the Global Smart PV Cloud Management Center ("the Cloud Management Center"), and applies the world's first mobile internet App "iNEX" to check various real-time operational indicators, thereby improving the operational efficiency of the power plants and the business results. As for corporate governance, United PV is the first solar power company that took the initiative to announce its quarterly power generation data on the website of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and updates its business progress to the investors in an open, transparent and timely manner. In addition, as an integrator of the superior resources of the global photovoltaic industry, the Group has initiated the establishment of the Photovoltaic Green Ecological Collaborative Organization ("PGO") with state-owned enterprises and industry leaders, in order to commence a full-scale cooperation in solar power plant projects and vigorously promote application of solar energy in a large-scale manner.

In active response to the national strategy of "the Belt and Road" ("B&R"), the Group and the United Nations Development Programme ("UNDP") entered into a strategic cooperation agreement in 2016, which proposed to build panda solar power plants in the countries along the "B&R" routes and provide one-stop energy solutions for those countries. The "panda solar power plant" was conferred the honour of "Youth Engagement and Innovation to Promote Sustainable Development" by the United Nations and will be promoted around the world. The Group's successful delivery of the UK projects is known as the first acquisition of new energy project by a Chinese enterprise after the Brexit, it also serves as a starting point for the Group to develop its overseas presence of "B&R".

Throughout the years, with efforts in pursuing growth, United PV has expanded gradually with increasing competitive strengths. Leveraging on the strong support of shareholders and our strengths in operational and strategic layout, the Company are recognized by and maintain close cooperation with various domestic and international large institutions.

United PV is listed on the Stock Exchange of Hong Kong (stock code: 00686.HK), and its shares are included in the Hang Seng Composite Index, Hang Seng Global Composite Index, and selected as a constituent of the Global Small Cap China Index by Morgan Stanley Capital International ("MSCI").

Being a professional investment and operation platform of solar power plants integrating global superior new energy resources, United PV will actively respond to China's call for building civilized and ecological green road along the "B&R" under a great era with clean energy as the core development power. United PV will export the integration plan which represent China's green standard along the road, achieve the sharing of advanced green production and build the civilization of green ecology with foreign countries!

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li, Alan *(Chairman and CEO)*
Mr. Lu Zhenwei
Mr. Li Hong *(Chief Financial Officer)*
Ms. Qiu Ping, Maggie
(Executive President and Company Secretary)
Mr. Jiang Wei

Non-executive Directors

Academician Yao Jiannian
Mr. Tang Wenyong
Mr. Li Hao

Independent Non-executive Directors

Mr. Kwan Kai Cheong
Mr. Yen Yuen Ho, Tony
Mr. Shi Dinghuan
Mr. Ma Kwong Wing

BOARD COMMITTEES

Audit Committee

Mr. Kwan Kai Cheong *(chairman)*
Mr. Yen Yuen Ho, Tony
Mr. Tang Wenyong

Remuneration Committee

Mr. Kwan Kai Cheong *(chairman)*
Mr. Yen Yuen Ho, Tony
Mr. Tang Wenyong

Nomination Committee

Mr. Yen Yuen Ho, Tony *(chairman)*
Mr. Kwan Kai Cheong
Mr. Li, Alan

Risk Control Committee

Mr. Lu Zhenwei *(chairman)*
Mr. Li, Alan
Mr. Kwan Kai Cheong
Mr. Tang Wenyong
Mr. Li Hong

AUDITORS

PricewaterhouseCoopers

SOLICITORS

Bermuda

Conyers Dill & Pearman

Hong Kong

Reed Smith Richards Butler
Troutman Sanders

Mainland China

Grandall Law Firm, Hangzhou Office

PRINCIPAL BANKERS

China Development Bank Corporation
Bank of China (Hong Kong) Ltd.
China Merchants Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
Ping An Bank Co, Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Estera Management (Bermuda) Limited

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Union Registrars Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1012, 10/F., West Tower, Shun Tak Centre,
168-200 Connaught Road Central, Hong Kong

WEBSITE

www.unitedpvgroup.com

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li, Alan, aged 49, was appointed as our Executive Director on 10 June 2013. Mr. Li is also the Chairman of the Board of Directors, the Chief Executive Officer, a member of the Nomination Committee, and a member of the Risk Control Committee of the Company. Mr. Li is primarily responsible for formulating our business strategy, overseeing acquisitions and development of solar power projects, and day to day operations. Mr. Li also serves as a director of China Solar Power Group Limited, an indirectly wholly-owned subsidiary of the Company. Mr. Li is also a director of China Merchants New Energy Group Limited and the chairman of the board of directors of Pairing Venture Limited. Prior to joining China Merchants New Energy Group Limited, Mr. Li served as an executive director of Linchest Technology Ltd. and Shun Tai Investment Limited and was mainly in charge of investment, mergers and acquisitions in China. In 2013, Mr. Li collaborated with several state-owned enterprises, such as GD Solar Co., Ltd. and State Grid Corporation of China, and established Photovoltaic Green-ecosystem Organization (the "PGO"), the first eco-system that integrates the entire value chain of the photovoltaic industry in China, which has significantly driven forward the development of the industry. The PGO has rapidly expanded the development and construction of large-scale solar power plants in China. Mr. Li possesses extensive experience in investments and the management of conglomerates. Mr. Li has a Master's degree in Business Administration from Murdoch University of Australia.

Mr. Lu Zhenwei, aged 46, was appointed as our Executive Director on 10 June 2013 and is the chairman of the Risk Control Committee of the Company. Mr. Lu also serves as a director of China Solar Power Group Limited, an indirectly wholly-owned subsidiary of the Company. Mr. Lu is also the chairman of the board of directors of each of China Merchants New Energy Group Limited and China Merchants Technology Holdings Company Limited, the senior general managing director of China Merchants Capital Investment Limited* (招商資本投資有限責任公司), the deputy general manager of China Merchants Innovation Investment Management Limited* (招商局創新投資管理有限公司), the general manager of Shenzhen China Merchants Yinke Investment Management Ltd.*(深圳市招商局銀科投資管理有限公司), and the executive director and chief financial officer of New Energy Exchange Limited. Mr. Lu previously served as a director of Beijing Huahuan Electronics Co., Ltd.* (北京華環電子股份有限公司) and China KZ High Technology Co., Ltd.* (中國科招高技術有限公司). Mr. Lu also served as a director of Shenzhen CAU Technology Co., Ltd.* (深圳中國農大科技股份有限公司) from May 2003 to May 2008, the shares of which are listed on the Main Board of The Shenzhen Stock Exchange. Prior to joining China Merchants Group Limited, Mr. Lu served in a number of companies as a director, the general manager, the deputy general manager or the chief financial officer. Mr. Lu holds profound understanding and unique insights in project financing and business operation and has more than ten years' experience in financial management, business management and project investment. Mr. Lu has a Bachelor's degree in Economics from Shanghai Maritime University and a Master's degree in Finance from Zhongnan University of Economics and Law.

Mr. Li Hong, aged 44, was appointed as our Executive Director on 28 August 2015, and is a member of the Risk Control Committee of the Company. Mr. Li joined us as the Financial Controller of the Company in February 2014 and was appointed as our Chief Financial Officer in April 2014. Mr. Li is primarily responsible for developing financial strategy and is the chairman of the PRC Affairs Management Committee of the Group. Mr. Li also acts as the general manager of United Photovoltaics (Changzhou) Investment Co., Ltd.* (聯合光伏(常州)投資有限公司), a major wholly-owned subsidiary of ours holding and managing investments in China, as well as acting as a director of several of our other subsidiaries. Prior to joining us, Mr. Li worked in the finance department of The Overseas Chinese Affairs Office of the State Council and was in charge of the financial departments with the China Travel Service (Holdings) Hong Kong Limited and its mainland subsidiaries. Mr. Li possesses over 15 years' experience in managing large state-owned enterprises, industrial enterprise, as well as the tourism and media industry. Mr. Li has a Bachelor's degree in Economics majoring in Monetary Banking from Central University of Finance and Economics, and a Master's degree in Business Administration from Murdoch University of Australia.

Biographies of Directors and Senior Management

Ms. Qiu Ping, Maggie, aged 38, was appointed as our Non-executive Director on 10 June 2013, was re-designated as an Executive Director on 28 August 2015, and is also our Executive President and Company Secretary. Concurrently, Ms. Qiu serves as a director and the president of China Solar Power Group Limited, an indirectly wholly-owned subsidiary of the Company, where she has been responsible for overseeing its legal and compliance matters, corporate governance, and human resources for over nine years. Previously, Ms. Qiu was the company secretary and senior vice president of a company which was listed on The NASDAQ Stock Market. Prior to that, Ms. Qiu served as assistant to general manager for several prominent multinational companies and gained extensive experience in corporate governance, mergers and acquisitions and project management. Ms. Qiu has a Bachelor's degree in Economics and a Bachelor's degree in German Literature from Peking University and a Master's degree in European Culture and Economics from Ruhr University, Bochum, Germany as well as a Master's degree in Corporate and Financial Law from The University of Hong Kong.

Mr. Jiang Wei, aged 35, was appointed as our Executive Director on 20 March 2017. Mr. Jiang had been our chief legal officer since 17 January 2014 and was re-designated as the chief operating officer on 13 October 2016, and he is also the chairman of Project Acquisition and Development Committee of the Company. Concurrently, Mr. Jiang also acts as the legal representative and chairman of the board of directors of United Photovoltaics (Shenzhen) Limited, an indirectly wholly-owned subsidiary of the Company, as well as acting as a director of several of our other subsidiaries. Mr. Jiang is primarily responsible for project acquisition and development, asset restructuring, and operations management affairs in various subsidiaries of the Company. Prior to joining us, Mr. Jiang served as the General Counsel of a company which was listed on the The NASDAQ Stock Market. Previously, He had been a practicing solicitor with Grandall Law Firm. Mr. Jiang has a Master's degree in Law from Queen Mary University of London.

NON-EXECUTIVE DIRECTORS

Academician Yao Jiannian, aged 63, was appointed as our Non-executive Director on 25 October 2010. Academician Yao is currently a researcher with the Institute of Chemistry, Chinese Academy of Science (the "CAS"), and was elected as an academician of the CAS in 2005. Academician Yao is also a member of the ninth and tenth National Committee of the Chinese People's Political Consultative Conference, a member of the Standing Committee of the eleventh and twelfth National People's Congress, and a member of the seventh National Committee of China-Association for Science and Technology. From August 1995 until September 1999, Academician Yao had successively been an associate researcher, researcher, instructor to students seeking doctoral degrees, the director of a laboratory, and an assistant to the head of the Institute of Photographic Chemistry, CAS. From March 2000 until March 2008, he was the deputy head of the Institute of Chemistry, CAS. Academician Yao graduated from the Chemistry Department of Fujian Normal University in 1982, received a Master's degree in Engineering from The University of Tokyo in 1990, and a Doctorate degree from The University of Tokyo in 1993.

Mr. Tang Wenyong, aged 53, was appointed our Non-executive Director of the Company on 24 December 2015 and is also a member of each of the Audit Committee, Remuneration Committee and Risk Control Committee of the Company. Mr. Tang is also a director of China Merchants New Energy Group Limited and a senior managing director of China Merchants Capital Management Co., Ltd.* (招商局資本管理有限責任公司). Previously, Mr. Tang served as an officer of the research and development department of China Merchants Shekou Industrial Zone Co., Ltd.* (招商局蛇口工業區有限公司) and the general manager of China Merchants Investment and Consultancy Management Co., Ltd.* (招商局投資顧問管理有限公司). Mr. Tang also serves as a director of Jiangxi Selon Industrial Co., Ltd.* (江西世龍實業股份有限公司) whose shares are listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, and served as the chairman of the supervisory board of Shenzhen Jasic Technology Co., Ltd.* (深圳市佳士科技股份有限公司), the shares of which are listed on the Growth Enterprise Market of the Shenzhen Stock Exchange, from 31 January 2013 to 27 January 2016. Mr. Tang has been engaged in equity investment for years, and accumulated extensive experience in investment and project management. Mr. Tang has a Bachelor's degree in Economic Geography from Peking University.

Biographies of Directors and Senior Management

Mr. Li Hao, aged 35, was appointed as our Non-executive Director on 20 March 2017. Mr. Li is currently the general manager of China Business Division, East Asia Business Headquarters at ORIX Corporation, a diversified financial services company and whose shares are listed on the Tokyo Stock Exchange (securities code: 8591) and on the New York Stock Exchange (trading symbol: IX). Mr. Li has been with ORIX Corporation since October 2007. He is also the director and president of ORIX, a wholly-owned subsidiary of ORIX Corporation, since April 2013. Mr. Li graduated from the Graduate School of Finance, Accounting and Law at Waseda University in Japan in September 2011 with a Master's degree in business administration for finance. He has more than 10 years of experience in the fields of investment banking and finance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kwan Kai Cheong, aged 67, was appointed as our Independent Non-executive Director on 1 April 2011 and is also the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee and the Risk Control Committee of the Company. Mr. Kwan is concurrently the president of Morrison & Company Limited, a business consultancy firm, and the chairman of the board of Utopa Limited, a commercial property company in PRC. Since 1 February 2007, Mr. Kwan has served as a non-executive director of China Properties Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. He also serves as an independent non-executive director of Henderson Sunlight Asset Management Limited, the Manager of Sunlight Real Estate Investment Trust whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, and each of HK Electric Investments Limited, HK Electric Investments Manager Limited (as trustee-manager of HK Electric Investments Limited), Win Hanverky Holdings Limited, Greenland Hong Kong Holdings Limited (formerly known as "SPG Land (Holdings) Limited"), Dynagreen Environmental Protection Group Co., Limited and CK Life Sciences Int'l., (Holdings) Inc., all of whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Kwan was previously the president and chief operating officer for Merrill Lynch & Co., Inc. (Asia Pacific region), an independent non-executive director of Galaxy Resources Limited, a company listed on the Australian Securities Exchange, from 13 October 2010 to 30 June 2014, and an independent non-executive director of China Oceanwide Holdings Limited (formerly known as "Hutchison Harbour Ring Limited"), a company listed on the Main Board of the Stock Exchange, from 27 September 2004 to 19 December 2014. Mr. Kwan obtained a Bachelor's degree in Accounting from the National University of Singapore in 1973, qualified as a chartered accountant in Australia in 1979 and has been a member of the Hong Kong Institute of Certified Public Accountants since 1982. Mr. Kwan completed Stanford's Executive Programme in 1992.

Mr. Yen Yuen Ho, Tony, aged 69, was appointed as our Independent Non-executive Director on 6 April 2011 and is also a member of the Audit Committee, the Remuneration Committee, and the chairman of the Nomination Committee of the Company. Mr. Yen is also an independent non-executive director of Jinchuan Group International Resources Company Limited and Alltronics Holding Limited, both of whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, and an independent director of China Minsheng Jiaye Investment Co., Ltd, and since January 2017 served as an independent non-executive director of WWPKG Holdings Limited, whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Mr. Yen also served as an independent non-executive director of Link Holdings Limited from 20 June 2014 to 16 October 2014, whose shares are listed on the Growth Enterprise Market of the The Stock Exchange of Hong Kong Limited. Mr. Yen was previously a senior civil servant; from April 1994 to March 2007 he was the law draftsman of the Department of Justice, where he was responsible for drafting Hong Kong legislation and a member of The Law Reform Commission of Hong Kong. Mr. Yen is an adjunct professor at the Hong Kong Shue Yan University and the Beijing Normal University, an honorary court member of the Hong Kong University of Science and Technology and an honorary fellow of the School of Education, Hong Kong University. He is the director of two secondary schools, the vice president of the Neighborhood Advice Action Council and a member of Heep Hong Society's Executive Council. Mr. Yen is an honorary adviser to the Pok Oi Hospital and the Hong Kong Academy of Nursing, an honorary legal adviser to the Shanghai Fraternity Association and to the Friends of Scouting, Scout Association of Hong Kong. He also serves as a director of the Hong Kong Institute for Public Administration. In April 2009, Mr. Yen was appointed by the Hong Kong SAR Government as the vice chairman of the Social Welfare Lump Sum Grant Independent Complaints Handling Committee. He is currently also a panel member of Review Board of School Complaints of the Education Bureau of HKSAR. Mr. Yen is a solicitor in Australia, Hong Kong and the United Kingdom and a barrister of Australia.

Biographies of Directors and Senior Management

Mr. Shi Dinghuan, aged 73, was appointed as our Independent Non-executive Director on 10 June 2013. Previously, Mr. Shi was a Counselor of the State Council of the PRC, the chairman of the China Renewable Energy Society, the invited deputy chairman of the China Energy Research Society, the invited vice chairman of the China Industry-University-Research Institute Collaboration Association and the honorary chairman of the China Association of Productivity Promotion Centre. Mr. Shi had worked in the Nuclear Energy Technology Institute of Tsinghua University since November 1973. In October 1980, he joined the State Commission of Science and Technology of PRC (the "SSTC"), the predecessor of the Ministry of Science and Technology (the "MOST"). He was appointed as the deputy division chief of the Forecasting Bureau of the SSTC, deputy director of the Industrial Technology Bureau of the SSTC, the director of the Department of Industrial Science and Technology of the SSTC, and later served as the deputy director-general of the High and New Technology Department and Industrial Department (directorate grade) (科學技術部高新技術發展及產業化司副司長(正司級)) of the PRC. In June 1988, he also acted as the officer of the "Torch Programme (國家火炬計劃)" office of the SSTC. Mr. Shi took the office of the Secretary General of MOST in August 2001. Since June 2003, he has been a member of the Mid-and-Long Term (2006-2020) Project Planning Office for National Science and Technology Development (國家中長期(2006-2020)科學技術發展規劃領導小組) and the leader of the Strategic Research Group (戰略組組長). In March 2004, Mr. Shi was appointed as a Counselor of the State Council of the PRC. Mr. Shi has taken part in the formulation of the seventh Five-Year-Plan of National Economy and the Mid-and-Long-Term Plan of Technology Development 1991-2000. Mr. Shi has also contributed to the formulation of technology programmes and the implementation of key technology projects in hi-tech areas for the eighth and ninth and tenth Five-Year-Plans. He has taken part in various hi-tech industrialisation programmes, such as High & New Technology Industries Development Zones (國家高新區), Enterprise Incubation, Productivity Centers, and Technology and Innovation Engineering. Mr. Shi, from June 2012 until May 2014, was an independent non-executive director of Guodian Technology and Environment Group Corporation Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Shi graduated from the Engineering Physics Department, Tsinghua University in July 1967, majoring in Radiation Dosimetry and Protection.

Mr. Ma Kwong Wing, aged 71, was appointed as our Independent Non-executive Director on 1 September 2013. Previously, Mr. Ma worked for Hang Seng Bank Limited (the "Hang Seng Bank") for over 30 years until his retirement in October 2005, during which he held several prominent positions, including being appointed as company secretary in 1988 and assistant general manager (while remaining as company secretary) in January 1993. On 17 February 2006, Mr. Ma was appointed as an independent non-executive director of Henderson Sunlight Asset Management Limited, the Manager of Sunlight Real Estate Investment Trust whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Ma is a fellow of The Hong Kong Institute of Directors, the Association of Chartered Certified Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He is also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, an associate member of The Chartered Institute of Bankers and The Hong Kong Institute of Bankers. Since November 2014, Mr. Ma has been a fellow member of the Hong Kong Securities and Investment Institute.

COMPANY SECRETARY

Ms. Qiu Ping, Maggie

(Please refer to "Executive Directors – Ms. Qiu Ping, Maggie")

CHIEF FINANCIAL OFFICER

Mr. Li Hong

(Please refer to "Executive Directors – Mr. Li Hong")

2016 Highlights

Dec 2016

- obtained the approval from the National Association of Financial Market Institutional Investors to issue RMB700 million medium-term notes
- completed the placement of 100 million new shares to China Huarong and China Minsheng
- recorded a total power generation volume of approximately 1.346 billion kilowatt-hours for the year ended 31 December 2016

Nov 2016

- entered into a rooftop solar power plant lease agreement with China Merchants Logistics Holdings, intended to commence the cooperation of rooftop solar power plant, and entered into power purchase agreements in respect of the electricity generated by the lease agreement for a period of 20 years
- a national renewable energy subsidy of approximately RMB300 million was approved
- successfully launched the world's first panda solar power plant project



Aerial View of Panda Solar Power Plant


Launching Ceremony of Panda Solar Power Plant


Launching Ceremony of Panda Solar Power Plant

Oct 2016

- proposed to issue US$ senior notes[1]
- successfully acquired a 40MW grid-connected solar power plant in Shandong province, China
- won a bid for the exclusive right to develop and operate the 100MW national "Top Runner" concentrated solar power plant project in north and south of the Huai River, Anhui


Signing ceremony of Acquiring Solar Power Plant under Shunfeng Photovoltaic

Note: (1) These US$ senior notes were successfully issued on 19 January 2017 following by an additional issue on 21 February 2017, with a total size of US$350 million for a term of three years

2016 Highlights

Sept 2016

- won a bid for the exclusive right to develop and operate the 50MW national "Top Runner" concentrated solar power plant project in Baotou, Inner Mongolia
- 16 solar power plants owned by the Group have been successfully registered into the sixth batch of the Renewable Energy Tariff Subsidy Catalogue
- proposed to acquire six grid-connected solar power plants[2] with an aggregate installed capacity of 82.4MW located in the UK



Picture of One of the UK Power Plants



Settlement Ceremony of the UK Power Plant Project

- announced to introduce ORIX Corporation[3], a large international investment institution, as the long-term strategic shareholder of the Group; CMNE (largest shareholder), NEX and the parties acting in concert with it raise their holdings simultaneously[3]
- entered into an strategic cooperation agreement with United Nations Development Programme to build panda solar power plant around the world together





Signing a Strategic Cooperation Agreement with the United Nations Development Programme

Aug 2016

- completed the issue of US$50,000,000 convertible bonds to a subsidiary of China Huarong
- a subsidiary of the Group signed a contract with the government of Turpan City to build an agricultural complementary demonstration base of 100,000 acres in the future
- successfully acquired a 20MW grid-connected solar power plant in Hebei, China

Note: (2) The acquisition was completed on 27 January 2017
(3) The transaction was completed on 20 March 2017

2016 Highlights

Jul 2016

- successfully acquired a 35MW grid-connected solar power plant in Yunnan, China

Jun 2016

- a national 100MW "Top Runner" solar power plant in Datong, Shanxi pioneered in on-grid connection



Aerial View of Datong National "Top Runner" Project



Datong National "Top Runner" Project Successfully Connected to Grid and Started Power Generation

May 2016

- issued the first Environmental, Social and Governance Report of the Group



Apr 2016

- successfully acquired a 20MW grid-connected solar power plant in Xinjiang, China

2016 Highlights

Feb 2016

- successfully obtained the integrated certification, including Certificate of UKAS (United Kingdom Accreditation Service) and Certificate of CNAS (China National Accreditation Service for Conformity Assessment)



Environmental Management Systems Certificate – CNAS



Occupational Health and Safety Management Systems Certificate – CNAS



Quality Management Systems Certificate – CNAS



Environmental Management Systems Certificate – UKAS



Occupational Health and Safety Management Systems Certificate – UKAS



Quality Management Systems Certificate – UKAS

2016 Awards

January 2016

United PV won the "The Best Investor Relations Award" at the "2015 China Financial Market Listed Company Awards". The Company received the honour as a result of its outstanding performance in the management and implementation of investor relations. The "2015 China Financial Market Listed Company Awards" was organized by China Financial Market, a well-known financial magazine in Hong Kong, and the Listed Companies Council of Hong Kong Chinese Enterprises Association. The selection is determined by an independent jury composed of the professional editorial team of China Financial Market and the business leaders and the invited voters based on various assessment criteria. The awards aim to select the outstanding model of the listed companies in Hong Kong and recognize the outstanding performance of the award-winning enterprises during the year.







April 2016

United PV received "2016 Outstanding Enterprises Award for China Top Runner" at the "China Photovoltaic Leadership Forum 2016" organized by Xinhua Net as a result of its successful development and construction of the national "Top Runner" Project in Datong, Shanxi with an installed capacity of 100MW



The presentation of "2016 Century Photovoltaic Conference and Annual China Photovoltaic Brand Ranking" was held in Shanghai. United PV was ranked the sixth in the "2015 China Photovoltaic Brand Ranking – the Best Power Plants Investor" among 78 candidates.



2016 Awards

September 2016

United PV received the "Special Contribution Award for Energy Internet" from China Institute of Energy Economics Research and China Energy News on the "First Session of China Internet Leadership Forum 2016". The award is to recognize the outstanding energy enterprises that make contribution towards enhancing the energy efficiency and integrating the industry resources. The selection of winners was determined by nearly 100 authoritative experts from the governmental authorities, industry associations, standard setting bodies, institutions of higher education and the media





November 2016

"United PV Investor Relations", the WeChat public account of United PV, was granted the "Top 100 WeChat Public Account of Energy Companies" Award by China Energy News. The public account has been an important information bridge between the Company, the investors and the public since its operation, through which the Company timely releases its business update announcement, the management's works and the important industry update, helping the investors and the public better understand the Company comprehensively

Green energy

Green future

Promoting low-carbon clean energy and responding to global climate change

The total electricity generation volume for **2016** is

1,345,830 MWh, equivalent to:

Saving standard coal

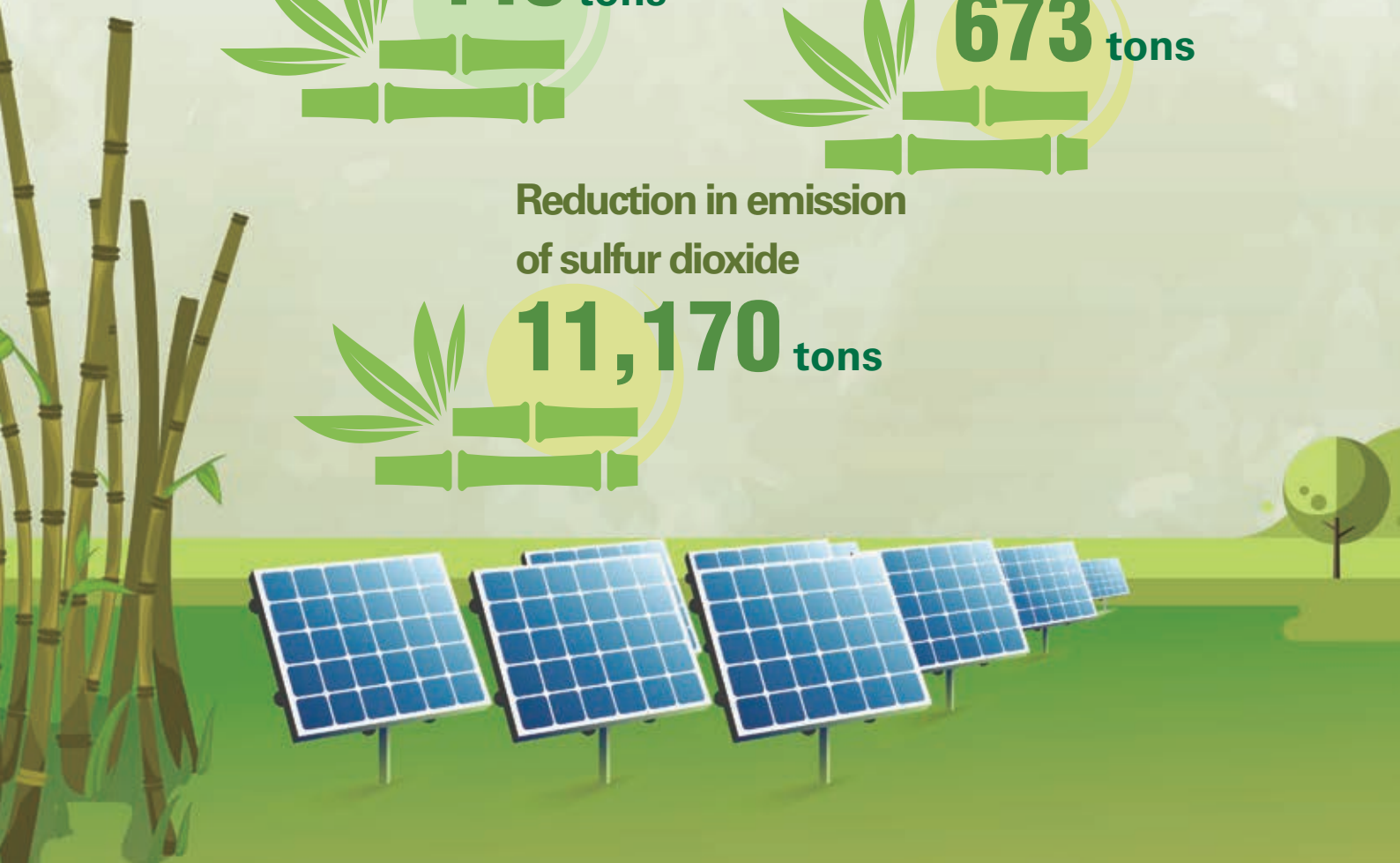
440 thousands tons

Reduction in emission of soot

673 tons

Reduction in emission of sulfur dioxide

11,170 tons



Reduction in emission of carbon dioxide

1,150 thousands tons

Reduction in emission of nitrogen oxides

10,363 tons

748,000 households' electricity consumption in a year

Planting **63.1** million trees



Investor Relations

Since its listing, United PV has always attached great importance to the management of investor relations underpinned by the principle of being proactive, open, transparent, interactive and efficient. The Company strived to improve the quality of IR services, and committed to presenting its operations, financial position, visions and development strategy and industry for better understanding of the industry investors, helping stakeholders make informed investment decisions.

MULTI-CHANNEL-BACKED "TWO-WAY" COMMUNICATION

The Company holds the two-way communication with stakeholders in high regard. With the protection of investors' interests as the core, the Company helped to improve transparency of the sector, monitored the media environment and market trends, and enhanced the communication between shareholders, investors, and the media.

In terms of disclosure, our top priority is assisting the investors in making a proper assessment of the value, growth potential and outlook of the Company, and making fair, accurate and timely corporate disclosures. The Company was the first listed company in solar industry to voluntarily announce its quarterly electricity generation volume. In terms of seeking feedbacks from the capital market, we have proactively established various channels to collect feedbacks from investors, in the hope of seeking advices and opinions on the current operating conditions and development roadmap of the Company from various sources.

Our IR team is committed to developing a scientific IR system and has formed a specific procedure of information disclosure where a dedicated IR webpage, a WeChat public account and various real-time communication platforms are utilized as the outlets of information to maintain close and smooth contact with investors. Being the information bridge to link the Company and investors, the IR department further improved the investor database, hosted investors meetings and collected information in an organized manner.

DIVERSIFIED ACTIVITIES TO ENGAGE INVESTMENT COMMUNITY AT HOME AND ABROAD

During 2016, we maintained timely corporate disclosures in compliance with the legal and regulatory requirements to update the capital market on our strategy, latest developments and results, as well as on related state policies via channels including analyst meetings, domestic and overseas roadshows, reverse roadshows, meetings with visiting investors, telephone and mail enquiries, corporate website, corporate communications and new media platforms, for the rapid business development of the Company both at home and abroad. Investor inquiries were handled proactively, timely and properly in an effort to update the investors on our operations comprehensively on the back of enhanced communication between the Company and the investment community. Suggestions and advice from investors were timely related to the management to ensure effective communication, optimize the management structure and policies of the Company, and ultimately bring more rewards to the investors.

In 2017, United PV will further widen the communication channels of the domestic and overseas capital markets, proactively deepen the communication and exchange to enhance the investors' understanding and acceptance of the Group, and at the same time expect to continuously arouse more support from, and attention of, the investors.

Investor Relations

INVESTOR RELATIONS ACTIVITIES IN 2016:

Major large-scale investor forums and conference: The Company kept an ear to the ground and sought feedbacks regarding business performance by proactively attending leading investor events and conferences to maintain close touch with the investment community. In 2016, the Company attended 12 leading investor conferences in Hong Kong, Beijing, Shanghai, Shenzhen and other places and met approximately 200 analysts and fund managers.

Domestic roadshows and reverse roadshows: After the release of data of major businesses and result, the Company conducted in-depth exchange and discussion with specific investors/analysts to ensure the timeliness and efficiency of communication, and met approximately 140 investors/analysts during the year. In 2016, the Company organized tours for nearly 20 investors to our solar power plants across different locations, during which key members of our management team and frontline staff would brief them on the plants' operations and taking questions.

Overseas roadshows: In 2016, the Company organized overseas roadshows in Singapore, the UK and other countries in line with the issue of USD bonds. At the roadshows, the management made presentations to the leading international investment institutions from the perspectives of operational overview, financial performance, strategies, outlook and industry development. The issue was over-subscribed, and became the first photovoltaic enterprise issuing a USD bond successfully. We met with approximately 20 analysts and investors at the overseas roadshows during the year.

LIST OF 2016 MAJOR INVESTOR EVENTS

Date	Event	Location
01.08	Sinolink Securities Strategy Conference	Shanghai
01.15	Chuancai Securities Strategy Conference in Spring	Shenzhen
02.24	Reverse Roadshow (Visit to the Cloud and Qianhai Power Plant)	Shenzhen
04.08	Thomson Reuters Strategy Conference	Hong Kong
04.18	Reverse Roadshow (Visit to Hami Power Plant)	Xinjiang
05.12	Reverse Roadshow (Visit to the Cloud and Qianhai Power Plant)	Shenzhen
06.30	ABC International Strategy Conference	Hong Kong
07.05	Reverse Roadshow (Visit to Datong Top Runner Project)	Shanxi
09.22-23	Sinolink Securities: the 8th Discussion Forum for Investment and Research Directors of Private Equity Institution 2016	Suzhou
09.23	China Merchants Securities SZ-HK Stock Connect Strategy Conference	Shenzhen
10.12	Guosen Securities: "Opportunities of SZ-HK Stock Connect" Strategy Conference	Shenzhen
10.20	Industrial Securities Strategy Conference	Shenzhen
10.24	China Merchants Securities Shanghai Strategy Conference	Shanghai
10.31-11.02	Overseas Financing Roadshow	Hong Kong, Singapore, the UK
11.23	Guoyuan Securities (Hong Kong) Strategy Conference 2017	Shenzhen
12.06	China Merchants Securities Strategy Conference	Shenzhen
12.12	Reverse Roadshow (Visit to Datong Top Runner Project)	Shanxi
12.20	Gelonghui: "Battles in HK Market" Strategy Conference	Xiamen

Management Discussion and Analysis

BUSINESS REVIEW

Diversification of investment locations

The Group is a leading listed company which owns and operates solar power plants. It focuses on and has an established track record in acquiring, developing and operating solar power plants across the People's Republic of China (the "PRC"). During the year ended 31 December 2016 (the "Year"), the Group continued to focus its resources on the expansion of solar power business and has added solar power plants with a total installed capacity of 415.4MW in the PRC. The Group, together with its associates and joint venture, own and operate 31 utility-scale ground mounted solar power plants and distributed solar power plants in the PRC with an aggregate installed capacity of 1,291.4MW as of 31 December 2016.

The Group strategically acquires and develops solar power plants so as to achieve predetermined minimal rate of return and selects its solar power plants based on a combination of considerations, including solar irradiation of the site, applicable feed-in tariffs, government subsidies, conditions for local grid connection, electricity transmission infrastructure and demand for electricity. The Group's ground mounted solar power plants are mainly located in Inner Mongolia, Qinghai, Xinjiang, Gansu, Hubei, Shanxi, Shandong, Ningxia and Yunnan, which together account for approximately 96.3% of the total installed capacity of all the plants owned by the Group, its associates and joint venture. The remaining solar power plants located in Jiangsu, Hebei and Guangdong are distributed power plants, comprising standalone roof top solar power plants and those combined with agricultural facilities. During the Year, the Group has been exploring further opportunities for growth outside the PRC, such as the United States, France, Australia, New Zealand, Germany, Japan and the United Kingdom. In January 2017, the Group has completed the acquisition of six operational solar power plants with an aggregate installed capacity of approximately 82.4MW in the United Kingdom. It is expected that such expansion into international markets will promote the Group's operation capacity and its standing in the solar industry, allow the Group to acquire more know-how and technology, diversify its revenue base, and increase its growth potential.

Electricity generation

As at 31 December 2016, there were 31 on-grid solar power plants beneficially owned by the Group, its associates and joint venture (2015: 24). The aggregate installed capacity of these solar power plants has increased to 1,291.4MW, by approximately 47.4% as compared to the corresponding period of 2015. All of these plants have achieved on-grid connection and have been generating electricity steadily. The details of the electricity generation of such solar power plants are set out as below. For accounting purpose, the volume of electricity generated by the solar power plants newly acquired during the Year was recorded only starting from their respective completion date of acquisitions.

Management Discussion and Analysis

	For the year ended 31 December					
	2016			2015		
	Number of power plant	Aggregate installed capacity	Electricity generation	Number of power plant	Aggregate installed capacity	Electricity generation
Location		(MW)	(MWh)		(MW)	(MWh)
Subsidiaries:						
Inner Mongolia, PRC	6	270.0	434,015	6	270.0	252,873
Qinghai, PRC	4	200.0	312,804	4	200.0	310,434
Xinjiang, PRC	6	120.0	119,039	5	100.0	80,756
Gansu, PRC	1	100.0	86,369	1	100.0	76,092
Hubei, PRC	1	100.0	103,398	1	100.0	18,800
Shanxi, PRC	1	100.0	73,733	–	–	–
Yunnan, PRC	2	54.8	52,815	–	–	–
Shandong, PRC	1	40.0	8,187	–	–	–
Others, PRC	4	22.8	14,068	2	2.4	2,881
Sub-total	26	1,007.6	1,204,428	19	772.4	741,836
Associates:						
Inner Mongolia, PRC	2	60.0	87,320	2	60.0	89,560
Jiangsu, PRC	2	23.8	29,067	2	23.8	28,334
Yunnan, PRC (Note 1)	–	–	3,383	1	19.8	–
Sub-total	4	83.8	119,770	5	103.6	117,894
Joint venture:						
Ningxia, PRC	1	200.0	21,632	–	–	–
Sub-total	1	200.0	21,632	–	–	–
Total	31	1,291.4	1,345,830	24	876.0	859,730

Note:

(1) The Group completed the acquisition of additional equity interest in that project company during the Year, since then that associate became a subsidiary of the Group.

The total electricity generated for the Year by the solar power plants beneficially owned by the Group, its associates and joint venture has increased to 1,345,830MWh, by approximately 56.5% as compared to the corresponding period of 2015. The solar power plants located in Inner Mongolia and Qinghai respectively contributed approximately 38.7% and 23.2% of the total electricity generation for the Year (2015: 39.8% and 36.1% respectively).

Management Discussion and Analysis

The increase in electricity volume generated during the Year was mainly due to: (1) expansion in aggregate capacity of 415.4MW by way of acquisition and self-development projects; (2) contribution of full year electricity generated by solar power plants with capacity of 140MW in Inner Mongolia and 100MW in Hubei, which were acquired in Q3 and Q4 of 2015 respectively; and (3) improvement in electricity generation in Gansu as a result of more power market transactions including inter-provincial solar power transmission, which helps to reduce loss from curtailment.

The average utilisation hours of our solar power plants remained stable and were above 1,400 over the past two years. This is attributable to the strategic diversification of investment locations. The Group has considered various factors for each investment, including but not limited to predetermined minimal rate of return, solar irradiation of the site, applicable feed-in tariffs, government subsidies, conditions for local grid connection, etc. In 2016, State Grid Corporation of China ("State Grid") has published the average utilisation hours of solar power plants in the PRC for 2015, which was 1,164. This indicates that the performance of the solar power plants of the Group (including its associates and joint venture) is better than the market on average.

Project development and operation

During the Year, the Group has improved its capability in the development, construction and operation of self-developed solar power plants and has enhanced operational efficiency, thereby laying down a solid foundation for development of projects and smart operation of plants in the future.

The Group's ability to successfully integrate and optimize photovoltaic components and technology and develop solar power plants was firstly recognised by the National Energy Administration of the PRC (the "NEA") in August 2015 when it awarded the Group the exclusive right to develop and operate a 100MW solar plant in Datong, Shanxi. This project was classified as a "Top Runner" project for the PRC solar power industry by the NEA due to its significance in marking the start of Datong's transformation – from a polluted industrial city that is highly reliant on fossil fuels to a industrial city with a low carbon footprint that relies on renewable energy sources. This 100MW Top Runner project has successfully achieved on-grid connection and electricity generation in June 2016 and this marked the Group's enhanced capability in self-developed project and in integration of advanced technologies. This project adopted high-efficient monocrystalline silicon modules, string inverters and multiple MPPT tracking system to optimize the performance of solar power plant. Another outstanding feature of this project is the real-time and centralized monitoring of operation as enabled by the Global Smart PV Cloud Management Center, which connects our solar power plants within the portfolio of the Group.

The Group has developed the Global Smart PV Cloud Management Center with an aim to improve the overall operating efficiency. This cloud system carries the most advanced technologies on cloud computing and mega data processing. It provides a centralized platform to monitor the operation and maintenance of the solar assets located in different regions, connects each plant to the central management in the cloud and enables timely communication. The cloud system enables a decision maker to effectively analyse available data collected from various plants, precisely diagnose the issues raised, and facilitates the process of detecting and solving the on-site technical problems.

Management Discussion and Analysis

During the Year, the Group has internalized certain operations and maintenance ("O&M") services and started to manage several solar power plants by itself. Together with the effective cloud system, the Group's EBITDA margin for the Year has improved from 76% in 2015 to 84% in 2016.

Financing

The solar power plants business is capital intensive in nature. The Group has been rigorously exploring various financing channels to enhance its financing capability and reduce its finance cost. During the Year, the Group has raised approximately RMB6,854 million through various channels including bank and other borrowings, finance leasing, medium-term notes, convertible bonds and share placement.

During the Year, the Company was assigned a stable outlook credit ratings of "Ba3" and "BB-" by Moody's Investors Service, Inc and S&P Global Ratings respectively. The Company then successfully issued a three-year US$350 million (approximately RMB2,410 million) senior notes in Q1 of 2017 for early redemption of certain convertible bonds, repayment of existing indebtedness and working capital purposes. The initial purchasers of the notes are all large international institutional investors, which indicates the international capital market's affirmation and confidence on the Company's future development.

In December 2016, a wholly-owned PRC subsidiary of the Group has received a credit rating of AA from China Cheng Xin International Credit Rating and has also received the official registration acceptance notification issued by the National Association of Financial Market Institutional Investors for the proposed issue of medium-term notes in the China Inter-bank Bond Market up to the principal amount of RMB700 million within a period of two years after the registration date.

In December 2016, the Company has issued a total of 100,000,000 shares to a subsidiary of China Huarong Asset Management Co., Ltd, and a subsidiary of China Minsheng Banking Corp., Ltd at a subscription price of HK$0.6 per share.

In September 2016, the Company entered into subscription agreements with ORIX Asia Capital Limited ("ORIX"), China Merchants New Energy Group Limited ("CMNEG") and New Energy Exchange Limited ("NEX"), whereby the Company agreed to allot and issue an aggregate of 2,232,978,962 shares and 871,075,858 warrants to the subscribers. In March 2017, the subscriptions completed and the Company received gross proceeds of approximately HK$1,299 million (equivalent to RMB1,154 million). ORIX is a leading international investment institution which owns renewable energy assets of over 7GW globally. As a long-term strategic partner, ORIX will, through its global subsidiaries, assist the Group with acquisitions of overseas solar power projects and share technical and operational experience with the Group.

The Company established a medium-term note programme of HK$2 billion (approximately RMB1.8 billion) to issue notes to professional investors. As at 30 March 2017, the Group had issued medium-term notes amounting to HK$234 million (approximately RMB208 million).

The Group is actively seeking refinancing opportunities that may provide the Group with optimal capital structure to pursue further growth and development, while lowering the finance costs.

Management Discussion and Analysis

FINANCIAL REVIEW

Financial highlight of the Group for the Year was demonstrated as follows:

	For the year ended 31 December			
	2016	2015	Change	
	RMB' million	RMB' million	RMB' million	%
Revenue from sales of electricity and tariff adjustment				
– Subsidiaries	**998**	631	367	58
– Share of associates	**32**	36	(4)	(11)
– Share of joint venture	**9**	–	9	N/A
	1,039	667	372	56
EBITDA (excluding associates and joint venture)	**841**	480	361	75
Depreciation	**(301)**	(242)	(59)	24
Finance costs	**(1,066)**	(638)	(428)	67
Other operating income, net	**16**	8	8	100
Fair value gains	**892**	732	160	22
Disposal gain	**–**	33	(33)	(100)
Profit for the year	**382**	373	9	2

General

The increase in the revenue from sales of electricity and tariff adjustment ("Revenue") and EBITDA of the Group (excluding associates and joint venture) was attributed to: (i) the full year electricity generated by solar power plants with capacity of 140MW in Inner Mongolia and 100MW in Hubei which were acquired in Q3 and Q4 of 2015 respectively, with the corresponding increase in Revenue by approximately RMB141 million and RMB80 million respectively; (ii) expansion in aggregate installed capacity of 235.2MW, or around 30.5% by way of acquisition and self-development projects, with corresponding increase in Revenue by approximately RMB126 million.

The net profit kept stable with slight increase during the Year which is mainly due to the offsetting impact of the increase in fair value and the increase in finance costs. The increase in fair value gain was mainly attributable to the increase in fair value in an unlisted investment which was a then associate of the Group. The fair value has been assessed by an independent valuer. The increase in finance costs was mainly caused by the interest amortisation of certain convertible bonds issued in 2015.

The Directors do not recommend the payment of any dividend for the Year.

Segment information

During the Year, the Group retained one single reportable segment which was principally engaged in the development, investment, operation and management of solar power plants in the PRC.

Management Discussion and Analysis

Revenue

The geographical breakdown of Revenue recognised during the Year was analysed as below:

	For the year ended 31 December	
	2016	2015
	RMB' million	RMB' million
Subsidiaries:		
– Inner Mongolia	**361**	213
– Qinghai	**268**	265
– Xinjiang	**91**	68
– Gansu	**64**	65
– Hubei	**98**	18
– Shanxi	**60**	–
– Yunnan	**35**	–
– Shandong	**8**	–
– Others	**13**	2
Revenue as shown on the consolidated statement of profit or loss	**998**	631
Associates:		
– Inner Mongolia	**1**	7
– Jiangsu	**30**	29
– Yunnan	**1**	–
Share of revenue from associates	**32**	36
Joint venture:		
– Ningxia	**9**	–
Share of revenue from joint venture	**9**	–
Total	**1,039**	667

Other income

During the Year, the Company received a compensation interest income of approximately RMB24 million in relation to an advance payment for a proposed acquisition of 930MW solar power plant projects in 2015. The advance payment was recovered in full in March 2016. In addition, the Group received a consultancy fee income of approximately RMB13 million in respect of provision of carbon assets management consultancy and inspection services. Included in the amount is also a compensation income in relation to certain construction service to a solar power plant located in Xinjiang, the PRC of approximately RMB21 million.

Management Discussion and Analysis

Employee benefits expenses

With the business expansion, the Group made substantial new hires to employees during the Year. The number of employees has increased by approximately 22% as compared to the corresponding period in 2015. Employee benefits expenses other than share-based payment expense amounted to approximately RMB89 million for the Year, representing an increase of 98% from approximately RMB45 million in corresponding period in 2015.

Depreciation of property, plant and equipment

The depreciation of property, plant and equipment was provided based on the assessment of their respective useful life. Power generating modules and equipment were the most significant components within the property, plant and equipment. During the Year, the useful lives of the property, plant and equipment have been reassessed and certain power generating modules and equipment have been reassessed to having 30 years useful lives from 25 years. With the change in such accounting estimate, the depreciation for the Year has been decreased by approximately RMB57 million.

Fair value gain on call option issued relating to acquisition of investments accounted for using equity method

The fair value gain recognised during the Year of approximately RMB165 million represented the call option agreement entered into in relation to the acquisition of remaining equity interest of a joint venture located in Ningxia, the PRC.

Fair value gain on financial assets at fair value through profit or loss relating to guaranteed electricity output

During the Year, the Group has recognised a fair value gain of approximately RMB220 million in relation to the estimation of guaranteed electricity output for solar power plants in Gansu, Hubei and Xinjiang, the PRC.

Fair value gain on unlisted investment

The Group ceased to have significant influence over an investee during the Year and re-classified the investment from associate to investment held for trading. The fair value was assessed by an independent professional valuer. The investee is mainly engaged in provision of engineering, procurement and construction ("EPC") services and provision of technical inspection services.

Finance costs

To develop and operate our solar power plant business, the Group has been obtaining various debt and equity financings. Debt financings include obtaining bank and other borrowings and issue of convertible bonds. During the Year, the total net proceeds from debt financing were approximately RMB6.9 billion (2015: RMB4.0 billion). Accordingly, the finance costs have increased by approximately 67% as compared to the corresponding period in 2015.

Although the overall finance costs have increased, the effective rates for those bank and other borrowings have decreased, as a result of the effective control on finance costs.

Share of profits of investments accounted for using equity method

The improvement in share of results of investments accounted for using equity method was mainly due to exclusion of loss from an associate engaging solar cell business which has been disposed of in December 2015 and no longer applicable for the Year.

Management Discussion and Analysis

Trade, bills and tariff adjustment receivables

In August 2016, the sixth batch Renewable Energy Tariff Subsidy Catalogue (the "Catalogue") was jointly issued by Ministry of Finance, National Development and Reform Commission and National Energy Bureau, which includes 15 solar power plants owned by the Group with aggregate installed capacity of 630MW. Partial settlement had been received since November 2016. Up to 31 December 2016, total amounts of approximately RMB500 million have been settled in cash. There were further settlement of approximately RMB263 million subsequent to the date of the statement of financial position.

As at 31 December 2016, the tariff adjustment receivables from the central government for the Group comprised 1% and 77% from 5th and 6th Batch Catalogues. Having considered the historical settlement pattern, management considered that there is no doubt on the recoverability issue. Those receivables other than 5th and 6th Batch Catalogues will also be recovered by the 7th Batch Catalogue to be applied in 2017, which is administrative in nature.

Key performance indicators

The Group measures the delivery of its strategies and managing its business through regular measurement of several key performance indicators, particularly on the following ratios: EBITDA margin, current ratio and interest-bearing debts-to-assets ratio.

EBITDA margin: EBITDA margin is a measurement of the Group's operating profitability and is calculated as EBITDA divided by the revenue. The Group has improved its performance on its solar power plants business as the Group has started to internalize certain O&M services and manage several solar power plants by itself during the Year. In addition, the Group has claimed certain amounts of compensation in relation to interest and EPC service. The EBITDA margin has improved by 8% to 84% in 2016 as compared to the corresponding period in 2015.

Current ratio: Current ratio measures the Group's ability to meet short-term debt obligation and is calculated as current assets divided by current liabilities. Certain long-term refinancing applications on projects level were completed after 31 December 2016, thus the current ratio has dropped from approximately 0.97 at 31 December 2015 to 0.88 at 31 December 2016. Together with the partial settlement of central government subsidies on renewable energy projects, issue of US$350 million senior notes and the proceed of equity financing of approximately HK$1.3 billion (approximately to RMB1.1 billion) in Q1 2017, the Group is confident that sufficient working capital will be in place in 2017.

Interest-bearing debts-to-assets ratio: Interest-bearing debts-to-assets ratio is a measurement of the strength to obtain financing from the Group's assets. The ratio is calculated as the interest-bearing debts divided by the total assets. The ratio has increased from approximately 61% at 31 December 2015 to approximately 77% at 31 December 2016 as the Group has successfully obtained various bank and other borrowings and issued convertible bonds during the Year.

Management Discussion and Analysis

Liquidity, financial resources, gearing ratio and capital structure

As at 31 December 2016, the Group recorded non-current assets of approximately RMB12,645 million, current assets of approximately RMB4,536 million, current liabilities of approximately RMB5,130 million and non-current liabilities of approximately RMB9,443 million. In order to finance the working capital of the Group, certain financing measures have been undertaken by the Directors as set out in note 2.1.1 to the financial statements.

The Group has established a treasury policy with the objective of lowering cost of funds. Therefore, funding for all its operations has been centrally reviewed and monitored at the Group level. To manage the Group's exposure to fluctuations in interest rates on each solar power project, appropriate funding policies will be applied including the use of bank and other borrowings, issue of convertible bonds, issue of senior notes or placing of new shares. The management will continue its efforts in obtaining the most privileged rates and favourable terms to the Group for its financing.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts is calculated as total borrowings (including current and non-current bank and other borrowings, construction costs payables and convertible bonds as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debts.

The gearing ratio as at 31 December 2016 and 2015 were as follows:

	2016	2015
	RMB' million	RMB' million
Bank and other borrowings	**10,134**	5,009
Construction costs payables	**563**	1,442
Convertible bonds	**3,154**	2,911
	13,851	9,362
Less: cash and cash equivalents	**(996)**	(947)
Net debts	**12,855**	8,415
Total equity	**2,608**	2,230
Total capital	**15,463**	10,645
Gearing ratio	**83.1%**	79.1%

Except for the bank and other borrowings and convertible bonds with aggregate amounts of RMB3,366 million and RMB3,154 million respectively, which were carried at fixed rates, the remaining borrowings of the Group bore floating interest rates.

Management Discussion and Analysis

As at 31 December 2016, the cash and cash equivalents were denominated in the following currencies:

	RMB' million
RMB	611
HK$	118
US$	96
GBP	171
	996

As at 31 December 2016, the maturity and currency profile for the Group's bank and other borrowings and convertible bonds is set out as follows (in RMB' million):

	Within 1 year	2nd year	3 to 5 years	6 to 10 years	Over 10 years	Total
RMB	3,533	799	1,758	2,221	107	8,418
US$	549	2,516	327	–	–	3,392
HK$	70	1,137	100	–	–	1,307
GBP	–	–	171	–	–	171
	4,152	4,452	2,356	2,221	107	13,288

During the Year, the Group did not have any financial instruments for hedging purposes nor did the Group have any currency borrowing and other hedging instruments to hedge against foreign exchange risks.

As at 31 December 2016, the Group had no significant capital commitment.

Material acquisitions and disposals of subsidiaries and associated companies

During the Year, the Group has completed several acquisitions of subsidiaries, however, none of these acquisitions is individually material to the Group. There was no material acquisition or disposal of associated companies during the Year.

Material reliance on key customer

The key customers for the sales of electricity business were subsidiaries of the State Grid and Inner Mongolia Power (Group) Co. Limited ("Inner Mongolia Power"), all of which are PRC state-owned electric utility companies that transmit and distribute power in the PRC. As at 31 December 2016, the receivables from the subsidiaries of State Grid and Inner Mongolia Power were approximately 69% and 31% of the total trade, bills and tariff adjustment receivables respectively. Having considered the track record of the repayment for those solar power plants under the 5th and 6th Batch Catalogue, the risk of concentration of key customers was minimal.

Management Discussion and Analysis

Charge on assets

As at 31 December 2016, bank and other borrowings of the Group were secured by the pledge over certain power generating modules and equipment, certain guarantee deposits, the fee collection right in relation to the sales of electricity in certain subsidiaries and mortgage over the shares of certain subsidiaries of the Group.

Certain outstanding convertible bonds are secured by mortgages/charges over shares of certain subsidiaries, assets of certain subsidiaries, fee collection right in relation to the sales of electricity in certain subsidiaries of the Group.

Employees and remuneration policies

As at 31 December 2016, the Group had 305 full-time employees (2015: 249), among which 41 were in Hong Kong and 264 were in the PRC. Employees were remunerated according to the nature of their positions, individual qualification, performance, working experience and market trends, with merit incorporated in the periodic remuneration review to reward and motivate individual performance. The Group offers competitive compensation and benefit packages to different levels of staff, including additional medical insurance, discretionary bonus, various training programmes, sponsorship for further study, as well as share option scheme for the benefits of the directors and eligible employees of the members of the Group. Total staff cost (including directors' emoluments) for the Year amounted to approximately RMB96 million (2015: RMB70 million).

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in the PRC and Hong Kong. For the operations in the PRC, the transactions are mostly denominated in RMB. Minimal exposure to fluctuation in exchange rates is expected. For the operations in Hong Kong, most of the transactions are denominated in HK$ and US$. Since the exchange rate of US$ against HK$ is pegged to each other under Linked Exchange Rate System, the exposure to fluctuation in exchange rates will only arise from the translation to the presentation currency of the Group. The Group did not resort to any currency hedging facility for the Year. However, management will monitor the Group's foreign currency exposure should the need arises.

Contingent liabilities

As at 31 December 2016, the Group had no significant contingent liability.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

Sustainability has been growingly embedded in our corporate culture. As an advocate of sustainable energy, the Group is committed to incorporate environmental, social and governance ("ESG") factors as a strategic consideration in its business model and daily operation. Adhering to our management philosophy of "perseverance, sincerity, respect of people and harmony", we are striving to align our management approach with the sustainability initiatives, aiming to pursue long-term value creation for our stakeholders.

The Group's sustainability strategy is led by the CEO. Relevant management approach is filtered down to respective departments which are responsible for identifying, assessing and mitigating current and potential ESG risks. In doing so, we aim to manage sustainability issues that have significant impacts to our Group, striving for ongoing improvements in sustainability performance. Detailed data performances will be separately published in our 2016 ESG report which can be found on the website of the Hong Kong Stock Exchange by the middle of 2017.

Management Discussion and Analysis

Environmental Management

The Group is committed to maintaining high standards of environmental protection across the locations where it has an operation. We have implemented an Environmental Management System (EMS) in accordance with the ISO 14001 standard for managing and governing our corporate activities, including investment, development, construction and operation of solar power plants. Our plan is to extend the scope of these certifications covering all our power plants in Mainland China subsequently.

In 2016, we have strictly complied with environmental laws and regulations in China. No significant fines and non-monetary sanctions for non-compliance were reported. Looking ahead, as the Company continues to grow in terms of capacity and geographical region, we will stay vigilant in managing our environmental performance and monitoring any future regulatory changes.

Stakeholder Engagement

Engaging stakeholders are central to our business operation. The Group aims to broaden its scope of dialogues with different stakeholder groups, including providers of financial capital, employees, business partners, local communities, governments, non-governmental organisations (NGOs), and industry trade associations. While stakeholders' views and concerns are communicated and understood through regular practices, in 2016, we also commissioned an independent consultancy to engage with our suppliers, employees, investors, NGOs through telephone interviews and online surveys, gauging their views towards the Group's sustainability efforts. Going forward, we will continue to maintain a close relationship with our stakeholders and respond to their key topics and concerns through ESG reporting.

Employees

The Group understands talent management is pivotal to its business success, placing strong emphasis to attract, develop and retain employees that help create value. We engage our employees through a quarterly performance appraisal. Review and feedback will be given and performance will be measured against their development goals.

Our human resources strategy and policies are aligned with Chinese labour laws and other applicable rules and regulations. In 2016, the Group did not record any case of discrimination, forced labour or child labour.

The Group is committed to providing a safe workplace for all employees and complying with relevant rules, laws and regulations. We have established a safety management system in accordance with the OHSAS 18001 standard to mitigate potential health and safety hazards in the workplace. In 2016, no fatalities and working days lost from work injury were recorded.

Suppliers

We have established a rigorous standard in selecting suppliers. In addition to the evaluation criteria such as quality, delivery, cost and service, priority will be given to those who have met the requirements specified in the social responsibility management system, environmental management system, occupational health and safety management system, and ISO 9001 quality management system.

The Group has been engaging its suppliers through the PGO. In 2016, semi-annual and annual meetings were held successfully with core suppliers in the PGO to share industry best practices. On a quarterly basis, we also held self-assessment session with suppliers, aiming to ensure communication and drive improvement.

Management Discussion and Analysis

Community

We are committed to supporting the local communities, striving to achieve sustainable development for both our environment and business. In 2016, we have collaborated with the United Nations Development Programme in constructing the Panda Solar Power Plants, which are designed to promote public consciousness about sustainable development, as well as to encourage youth participation in innovation for the social good.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group operates mainly in Hong Kong and Mainland China. The development and operation of our solar power plants located in China are regulated by the local laws and regulations on renewable energy and provision of electricity as well as various policies and industry guidance catalog issued by the governmental authorities. There was no incident of non-compliance with relevant laws and regulations that had or would have a significant impact on the Company during the Year.

RECENT DEVELOPMENT

In January 2017, the Group has completed its acquisition of solar power plants in the United Kingdom, with total installed capacity of approximately 82.4MW. The acquisition marked the first step of overseas expansion of the Group.

During January and February 2017, the Company has issued US$350 million (equivalent to approximately RMB2,410 million) senior notes mainly for the early redemption of certain convertible bonds, repayment of certain existing indebtedness and working capital purposes. Such senior notes will mature in 2020.

In February 2017, the Group has commenced the development and construction of a panda-shaped solar power plant in Datong, the PRC, with an installed capacity of 50MW. The implementation of the project solidated the initiatives set out in the memorandum of understanding entered into between the Company and United Nations Development Programme in September 2016 to establish panda-shaped solar power plants so as to promote the youth advocacy on the sustainable development goals.

In March 2017, the Company has successfully completed the allotment and issue of shares and warrants to CMNEG, NEX, ORIX and a subsidiary of Asia Climate Partners Ltd. CMNEG and its parties acting in concert continue to be our single largest shareholder, and ORIX then has become the second largest shareholder of the Company.

Management Discussion and Analysis

OUTLOOK

Response to global climate change has become a major topic around the world in recent years. Under such background, the global energy system accelerated the transition to low-carbon energy. As such, utilization of renewable energy at large-scale as well as cleansing and low-carbonization of traditional energy use will be the basic trend in energy development, and expediting the development of renewable energy has become a mainstream strategy in the global energy transition. The Paris Agreement came into effect in November 2016, which meant that the development of new energy will be further accelerated. In addition, the PRC expressly stated in its basic national policy that the country shall persist in saving resources and protecting the environment, and set the fundamental target for energy development, that is, the carbon dioxide emission of the PRC will reach the peak by 2030, and the proportion of non-fossil energy in primary energy consumption will increase to 20%. With the new urbanization development, the construction of a green, recycling and low-carbon energy system has become necessary for the social development, which provided a favourable social environment and a broad market for the development of renewable energy such as solar power. Solar power enjoys unique advantages in terms of accessibility and energy structure adjustment, and has been widely applied all over the world, and the photovoltaic industry has entered into a new phase of large-scale development.

The "13th Five-year Plan" period is an important period for the promotion of economic restructure, energy revolution and system and mechanism innovation of the PRC, and is also a critical stage for the upgrade of solar industry. As such, the PRC solar industry will be exposed to precious opportunities for development. In respect of the industry, the upstream of the PRC photovoltaic industry enjoys distinguished competitiveness internationally with advanced technologies and well-established industrial chain; the downstream is undergoing rapid development with newly added installed capacity of 33.4GW and total installed capacity of 77GW in 2016. In recent years, local governments have developed a number of initiatives to fuel the growth of solar industry. The *Notice on Implementation of Mission of Fixed-Assets Investment in Autonomous Region* issued by Xinjiang Government on February 2017 set an investment goal of RMB1.5 trillion, among which RMB1.254 billion will be invested into new energy industry, including solar, and power grid development. Meanwhile, the PRC will step up the pace of "Going Out Strategy" for new energy going forward. Leveraging on extensive industry experience, advanced science and technologies and abundant talent pool, the PRC will put more effort in international market planning and research for solar power industry in key regions such as the Belt and Road (B&R) countries, provide guidance to the development and construction of major international projects, consolidate the traditional investment market of solar power industry in Europe, North America and certain regions in Asia and focus on the development of emerging markets such as Southeast Asia, West Asia, Latin America and Africa. The PRC will also strengthen the international cooperation on advance production capacity and project develop, form a strategic alliance covering the whole industrial chain and continuously enhance the competitiveness of its solar industry in international market to achieve "quality import and export" of solar power production capacity. The development and utilization of energy resources is a "strategically prioritized project", and the B&R countries are blessed with various resource advantages which are highly economic mutually complementary. Therefore, the great potential and space for cooperation makes energy cooperation of utmost importance to the B&R strategy.

Management Discussion and Analysis

Given the foregoing, United PV will continue to deepen the strategic cooperation with the United Nations Development Programme ("UNDP") in the future, carry out relevant projects in new energy sector, implement the "Panda 100" program in the B&R countries by constructing Panda Solar Power Plants and pilot power plants, and provide comprehensive energy solutions to the B&R countries based on their actual situations, in order to achieve global sharing of advanced production capacity and export the environmental-friendly concepts and lifestyle.

In respect of the domestic market, the industry will develop with marketization and diversification in an organized and healthy manner. Firstly, the impact of delay in subsidy settlement and solar power curtailment on the solar industry development will be further alleviated. With the payment of the sixth batch of subsidies for renewable energy, the problem of delay in subsidy settlement was relieved. In addition, the Notice on Implementation of Pilot Program in Relation to the Issue of Green Certificate for *Renewable Energy and Resources Acquisition and Trading System* (《關於試行可再生能源綠色電力證書核發及資源認購交易制度的通知》, "Green Certificate") issued in January 2017 stated that the pilot program of issue and voluntary acquisition of Green Certificate will be implemented from 2017, and a quota assessment system and compulsory trading mechanism for Green Certificate will be established at an appropriate time in 2018 based on market demand. Meanwhile, with the overall acceleration in establishment of the national carbon emission trading market, the subsidy mechanism for solar power generation will be further improved, which will boost the consumption of clean energy and stimulate the marketization of solar power tariff, thereby shortening the turnover period of tariff of the enterprises. Meanwhile, during the "13th Five-year Plan" period, the PRC will step up the pace in establishing a national unified market for electricity and promote the large-scale development and consumption of clean energy. As the Jiuquan-Hunan UHV transmission line came to service in March 2017, more UHV transmission lines are expected to be installed and put into operation in a large scale in 2017, which will increase the proportion of renewable energy in the power distribution channel effectively, expand the area accessible to electricity generated from solar power and alleviate the problem of solar power curtailment in a practical manner.

In light of the above, United PV will continue to strengthen the operation and maintenance management of existing power plants, and continuously optimize the geographical distribution of assets. We will put our emphasis on Central China and Southeast China which have better economic benefits without power curtailment. For regions affected by power curtailment, we will carefully select high-quality projects, make investment and commence construction in appropriate time. Meanwhile, we will pay close attention to the construction of UHV distribution facility channel and new energy facility to reverse more quality resources. We will also continue to closely follow up the changes in policies in relation to national subsidies on the price of electricity generated from solar power, Green Certificate trading and carbon emission so as to establish a diversified revenue model.

Going forward, on one hand, the strong determination in promoting energy structure adjustment, transition and upgrade all over the world provides precious opportunities for further enhancement of overall quality of assets and competitiveness of new energy industry, which exposes the industry to strategic opportunities of historic importance. On the other hand, the decisive function of the market is of growing importance to resources allocation. New energy power generation enterprises will gradually participate in the market competition, which poses higher requirement for the Group in strategic distribution of resources, cost control capability and market services quality. As such, the Group is faced with more intensive competition and daunting challenges for its development.

Management Discussion and Analysis

Facing the opportunities and challenges, United PV will adhere to the development philosophy of "integrating ingenuity and structured innovation" based on the current situation, actively explore overseas projects, expand into international market, conduct in-depth research on the local policies, regional capacity, grid and other conditions of foreign countries, make strategic investment in markets with mature conditions and promising return and carry out project acquisition and development in a prudent manner. The Group will actively follow up major project opportunities in Europe, North America, Australia and regions along the B&R route to facilitate the internationalization at a steady pace. For domestic market, based on the actual situation of solar power projects in different regions, we will strictly implement the principle of matching the development pace and scale with quality and benefits. We will prioritize the investment and construction of projects with high electricity price and favourable condition for grid connection, actively reserve the projects requiring further improvement in external investment environment and policy supporting measures, and make investment decisions when conditions become mature, so as to ensure that the Group can continuously expand its business scale while making profits at a steady pace. Under the policy of electricity system reform, the Group will actively explore and develop new opportunities and take proactive action where conditions permit. Starting from UHV and based on external power transmission, the Group will develop the local projects with high quality and efficiency, and active explore the electricity sales business in order to broaden the road for the Group's future development. Meanwhile, we will adhere to the prudent financial policy, optimize the debt structure of the Group and actively and properly lower the leverage ratio to reinforce the foundation for long-term, ongoing and healthy development of the Group.

Report of Corporate Governance

CORPORATE GOVERNANCE PRACTICES

We are committed to maintaining a high standard of corporate governance to protect the interests of the Company and our Shareholders as a whole. We believe that rigorous standards of corporate governance enhance the sustainability of the Company. To this end, we have maintained a framework of corporate governance policies and practices to apply the principles of good governance in our daily operation. This framework is built upon principles of accountability and integrity.

We have applied the principles of and complied with all code provisions of the corporate governance code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange (the "Stock Exchange") throughout the year ended 31 December 2016, except for code provision A.2.1 relating to the role of chairman and chief executive. Details of such deviation and explanation are set out in the section headed Chairman and Chief Executive Officer below.

During the year ended 31 December 2016, we had made further progress on our corporate governance practices including:

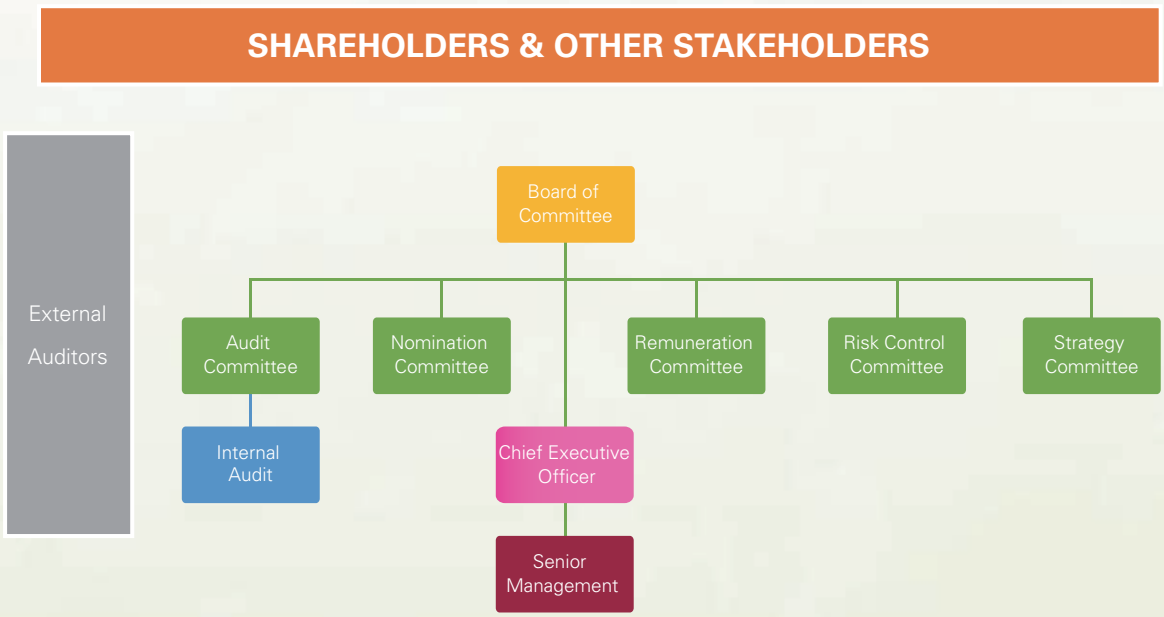
- obtained ISO9001, ISO14001 and OHSAS18001 certification which optimized our organization structure, enhanced long-term environmental management and improved health and safety performance to keep in line with international standard;
- published our first Environmental, Social and Governance Report in accordance with the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange and the G4 Sustainability Reporting Guidelines issued by the Global Reporting Initiative;
- issued internal guidance for investment in overseas solar power market comprising analysis on foreign investment control, introduction of local regulatory framework and corporate maintenance requirements in order to assist in the feasibility studies for overseas investments;
- expanded acquisition procedure and policy with specific provisions for overseas merger and acquisition projects to standardize project management and strengthen internal control;
- provided internal compliance training to employees in relation to bribery prevention to increase awareness as part of ongoing compliance training programme; and
- continuously provided internal professional trainings on the Listing Rules and the Securities and Futures Ordinance for the Directors and employees.

Report of Corporate Governance

CORPORATE GOVERNANCE STRUCTURE

Our Board is collectively responsible for performing the corporate governance duties. It is responsible for developing, reviewing and monitoring the policies and practices on corporate governance of the Company. In our corporate governance framework, other key participants, including Shareholders, senior management and other stakeholders, have a role to contribute and interact in the process of decision making and they set us in motion of continuing improvement in our corporate governance practices.

The diagram below shows our current corporate governance structure and the relationship between key participants:



BOARD OF DIRECTORS

Overall responsibility and delegation

Members of our Board are individually and collectively accountable for promoting the success of the Company and achieving sustainable development of the Company. Our Board provides leadership and supervision of the Company, overseeing businesses and evaluating the performance of the Group. It focuses on formulating the overall strategies and policies with particular attention paid to the growth and financial performance of the Group, and make decisions on major acquisitions and other specified matters reserved for the Board.



The implementation of the Group's strategies and policies and the day-to-day operations of the Group are performed by the executive Directors, chief executive and senior management under the regular monitoring and supervision of our Board and its committees. These arrangements will be reviewed periodically to ensure that they remain appropriate to our needs.

Report of Corporate Governance

All Directors have separate access to the management and are provided with full and timely information about the conduct of the business and operation of the Group. A monthly report containing significant events and latest development of the Group was provided to all Directors. Upon request by the Board, independent professional advice will be available to facilitate the decision-making process. Appropriate directors' and officer's liability insurance has been arranged for the Directors.

Our Board has also delegated certain functions to the Audit Committee, Remuneration Committee, Nomination Committee and Risk Control Committee, further details of which are set out in this report.

Key Matters reserved for the Board

Strategy & operation	Monitoring of financial performance	Organisation & succession planning	Governance & risk management
• approve the strategic plan and annual operation and investment plans of the Group	• approve and monitor the annual budget and annual finance plan	• decide the group organisation	• develop the corporate governance structure and policy
• approve notifiable transactions and connected transactions	• approve the selection and appointment of the external auditors	• approve the remuneration policy and incentive scheme	• consider the appointment of directors
• approve issue of shares and other securities within the authority given by Shareholders	• review and approve the annual and interim financial results and approving its publication	• approve the appointment or removal of key officers and senior management	• approve and review the terms of reference of board committees
• approve other material transactions and corporate activities			• establish risk management and internal control systems
			• establish and review shareholders' communication policy

Report of Corporate Governance

Composition of our Board

Our Board currently comprises twelve Directors, namely five executive Directors, three non-executive Directors, and four independent non-executive Directors. The Directors who served the Board during the year ended 31 December 2016 and up to the date of this report are as follows:

Name of Directors	Changes in Director up to the date of this report
Executive Directors	
Mr. Li, Alan *(Chairman and CEO)*	
Mr. Lu Zhenwei	
Mr. Li Hong	
Ms. Qiu Ping, Maggie	
Mr. Jiang Wei	*appointed as a Director by the Board on 20 March 2017 as an addition to the Board*
Non-executive Directors	
Academician Yao Jiannian	
Mr. Tang Wenyong	
Mr. Li Hao	*appointed as a Director by the Board on 20 March 2017 as an addition to the Board*
Independent non-executive Directors	
Mr. Kwan Kai Cheong	
Mr. Yen Yuen Ho, Tony	
Mr. Shi Dinghuan	
Mr. Ma Kwong Wing	

Directors' biographical details are set out in the "Biographies of directors and senior management" section of this report on page 12 to 15. Our Board believes that its composition is well balanced with each Director having sound knowledge, skills, diversity of perspectives, and experience and/or expertise relevant to the business of the Group.

To the best knowledge of our Board, there is no financial, business, family or other material/relevant relationship among its members. Updated list of Directors and their Role and Function has been maintained on our website and that of the Stock Exchange. The names and identification of the Directors are disclosed in all corporate communications issued by the Company pursuant to the Listing Rules.

Report of Corporate Governance

Chairman and Chief Executive Officer

Mr. Li, Alan, an executive Director, is the CEO and the chairman of the Board. Code A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Board is of the view that the current structure enables the Company to achieve its overall business goals more effectively and efficiently as the Company is in a rapid development phase for the time being. Our Board also believes that the balance of power and authority between chairman and chief executive will not be impaired by the present arrangement and the significant weight of the non-executive Directors (including the independent ones) enables the Board as a whole to effectively exercise its non-bias judgement.

Independent Non-executive Directors

Our Board has four independent non-executive Directors, representing one-third of the Board, and two of whom possess professional qualifications in accounting and related financial management expertise. We are in compliance with Rules 3.10(1) and (2), and 3.10A of the Listing Rules throughout the entire year. With such a weight of the independent non-executive Directors, there is a strong independent element on our Board, which can effectively exercise independent judgement. The independent non-executive Directors contribute by ensuring due governance process and reviewing the management performance. They also bring in objective and impartial considerations for connected transactions and other issues of the Group.

We have received from each independent non-executive Directors an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. We are of the view that all independent non-executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and are independent.

Appointment and Re-election of Directors

We follow a formal and considered procedure for the appointment of new directors. The Nomination Committee identifies suitably qualified individuals for directorship to complement the Company's corporate strategy and makes recommendations to the Board on proposed appointments. A new Director may be appointed by the Shareholders at general meeting or by the Board on the recommendation of the Nomination Committee, either to fill a casual vacancy on the Board, or as an addition to the Board. Any Director appointed by the Board must retire at the next following general meeting, if appointed to fill a casual vacancy or next following annual general meeting, if appointed as an addition to the Board in accordance with the Bye-laws but shall then be eligible for re-election.

Every Director is appointed for a specific term and should be subject to retirement by rotation at least once every three years. In accordance with our Bye-laws, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company and every Director shall be subject to retirement by rotation at least once every three years. Each Director has entered into a service contract or a letter of appointment with the Company. All the non-executive Directors (including the independent non-executive Directors) are appointed for a specific term of one year subject to the retirement and re-appointment provisions of our Bye-laws.

In the annual general meeting held on 25 May 2016, Mr. Li Hong, Ms. Qiu Ping, Maggie, Mr. Kwan Kai Cheong and Mr. Shi Ding Huan had retired from office and been re-elected as Directors. Mr. Tang Wenyong was appointed by the Board on 24 December 2015 and in the next following special general meeting held on 16 February 2016, Mr. Tang Wenyong had retired from office and been re-elected as Director.

Report of Corporate Governance

Directors' Induction and Continuous Professional Development

Upon each appointment, an induction briefing and a Directors' induction handbook were given to each of the newly appointed Directors. Such briefing and handbook primarily introduce the laws, rules and regulations to which the Directors should observe during their tenure, as well as the Company's policies, codes, compliance manual, and the business, operations and development of the Group. Mr. Li Hao and Mr. Jiang Wei, the new Directors appointed on 20 March 2017, had both received an induction briefing and given an updated Directors' induction handbook.

During the year ended 31 December 2016, we have arranged trainings which were presented by professional firms to the Directors. The Directors also recognise the importance of keeping abreast of the business activities and development of the Company, and developing and refreshing their knowledge and skills and thus continuously attend seminars and/or briefings to refresh their knowledge. In addition, a number of reading materials in relation to the amendments or revision of applicable laws, rules, regulations, standards and policies of the country and region in which the Group operates, such as guidelines, newsletters, reports, consultation papers, interpretations issued by regulatory bodies or professional firms, are also provided to all Directors from time to time.

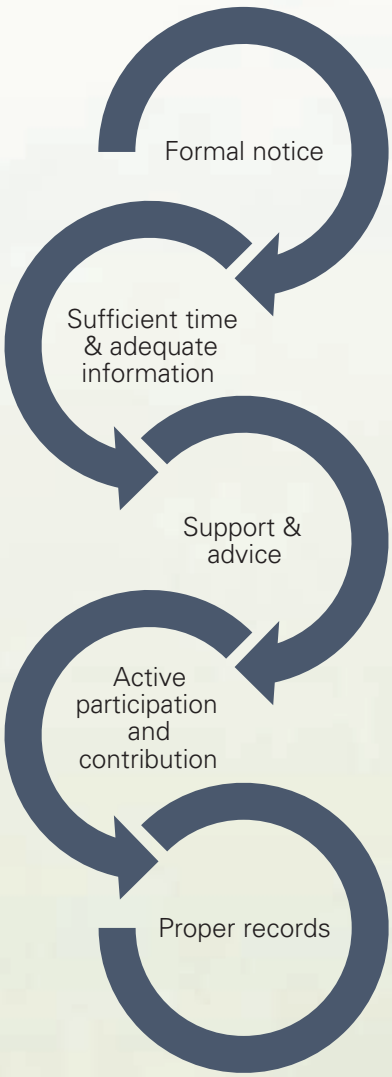
We have maintained record of the continuous professional development participated by the Directors. A summary of the Directors' participation in the continuous professional development during the year ended 31 December 2016 and up to the date of this report is as below:

	Attending briefings/ seminars	Reading materials/ regulatory updates/ monthly reports
Executive Directors		
Mr. Li, Alan	✓	✓
Mr. Lu Zhenwei	✓	✓
Mr. Li Hong	✓	✓
Ms. Qiu Ping, Maggie	✓	✓
Mr. Jiang Wei *(appointed on 20 March 2017)*	✓	✓
Non-executive Directors		
Academician Yao Jiannian	✓	✓
Mr. Tang Wenyong	✓	✓
Mr. Li Hao *(appointed on 20 March 2017)*	✓	✓
Independent non-executive Directors		
Mr. Kwan Kai Cheong	✓	✓
Mr. Yen Yuen Ho, Tony	✓	✓
Mr. Shi Dinghuan	✓	✓
Mr. Ma Kwong Wing	✓	✓

Report of Corporate Governance

BOARD PROCESS

Key features of Board process



- 14 days' notice or reasonable notice

- agenda and board papers are provided in advance

- access to the management
- seek independent professional advice at the Company's expenses

- meet at least 4 times a year
- meet when required
- promote a culture of openness and debate
- encourage all Directors to voice their concerns, if any

- record in sufficient detail the matters considered and decisions reached
- record any concerns raised

Report of Corporate Governance

Other Key Features of Board Process
• The Chairman held a meeting with the non-executive Directors without the presence of executive Directors.
• Transactions where Directors are considered having a conflict of interest or material interests shall be dealt with in a physical meeting with present of independent non-executive Directors who have no material interests.
• Directors having conflict of interests or material interests shall disclose his/her interests in accordance with the Bye-laws before the meeting and shall abstain from voting on the resolution(s) approving such transactions and shall not be counted in the quorum.

BOARD COMMITTEES

Our Board has established its Audit Committee, Remuneration Committee, Nomination Committee, Risk Control Committee and Strategy Committee on 14 March 2000, 28 September 2005, 23 March 2012, 23 July 2013 and 20 March 2017 respectively. Details of authority, role and responsibilities of each committee are set out in written terms of reference which are available on the Company's website under the Investor Relations section and the Stock Exchange's website. The Audit Committee, Remuneration Committee, Nomination Committee and Risk Control Committee reviewed its terms of reference at least once a year to ensure they remain in line with the requirements of the Listing Rules. Amendments to the terms of reference shall be submitted to the Board for approval and adoption.

The company secretary of the Company acted as the secretary of the Audit Committee, Remuneration Committee, Nomination Committee, Risk Control Committee and Strategy Committee. An agenda accompanying board committee papers are sent to the committee members at least three days prior to the meeting. Sufficient resources are made available to the committee members when required. The secretary prepares full minutes of the committee meetings with details of the matters considered by the committee members. The draft minutes are sent to all committee members of respective committee for comment and approval after each meeting and the final version of the minutes is sent to the committee members for their records within a reasonable time after the meeting. The chairman of the respective committee summarises the activities of that committee and highlights issues arising and reports to the Board after each committee meeting.

Audit Committee

Audit Committee currently consists of three members, including two independent non-executive Directors, namely Mr. Kwan Kai Cheong and Mr. Yen Yuen Ho, Tony, and one non-executive Director, namely Mr. Tang Wenyong. The Audit Committee is chaired by Mr. Kwan Kai Cheong who possess relevant professional qualification and expertise in financial reporting matters.

The Audit Committee acts as an important link between the Board and the Company's auditors. It is responsible for making recommendations to the Board on the appointment and re-appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor. It is empowered to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. It reviews, makes recommendations and reports to the Board on findings relating to the financial statements, reports and accounts, financial reporting system, internal control procedures and compliance issues.

Report of Corporate Governance

The Audit Committee held three meetings to deal with the following matters during the year 2016:

Summary of work done during the year in 2016

- reviewed and discussed with the external auditors of the Company about the audited annual results of the Group for the year ended 31 December 2016 as well as the financial and accounting policy and practices of the Group;
- reviewed and discussed the structure and composition of finance staff of the Group;
- reviewed and discussed with general manager of internal audit department about the internal audit work of the Group;
- reviewed and considered the independence, re-appointment and remuneration of external auditors;
- reviewed and discussed the unaudited consolidated interim results of the Group for the six months ended 30 June 2016; and
- reviewed and discussed with the external auditors about their annual audit service plan in relation to the results of the Group for the financial year ended 31 December 2016.

Auditor's Remuneration

The external auditors perform independent review or audit of the financial statements prepared by the management. PricewaterhouseCoopers has been re-appointed as the independent auditor of the Company by Shareholders at the AGM held on 25 May 2016. During the year ended 31 December 2016, the remuneration paid or payable to PricewaterhouseCoopers (including its affiliated firms) for services rendered is summarised as below:

	2016	2015
	RMB' million	RMB' million
Statutory audit	**3**	2
Non-audit services	**–**	1
Total	**3**	3

The non-audit services mainly comprise of services in connection with acquisitions of solar power plants by the Group.

The responsibilities of the independent auditor with respect to the consolidated financial statements for the year ended 31 December 2016 are set out in the section "Independent Auditor's Report" on pages 77 to 84.

Report of Corporate Governance

Remuneration Committee

Remuneration Committee currently consists of three members, including two independent non-executive Directors, namely Mr. Kwan Kai Cheong and Mr. Yen Yuen Ho, Tony, and one non-executive Director, namely Mr. Tang Wenyong. Mr. Kwan Kai Cheong is the chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration by reference to corporate goals and objectives resolved by the Board from time to time, approving the terms of executive Directors' service contracts and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

The Remuneration Committee held one meeting and passed one written resolution to deal with the following matters during the year 2016:

Summary of work done during the year in 2016

- made recommendations on grant of share options to Directors and employees of the Group in January 2016;
- made recommendations on a raise of service fee of Mr. Li, Alan, the CEO, Mr. Li Hong, the CFO, and Ms. Qiu Ping, Maggie, the Company Secretary of the Company in January 2016;
- made recommendations on establishment of performance bonus of Mr. Li, Alan in January 2016, which is subject to the total installed capacity of new acquired solar power plants in the year of 2016;
- reviewed and discussed the remuneration policy of the Group and remuneration plan of Directors and members of senior management in March 2016; and
- reviewed, discussed and made recommendation on the adjustment on payment date of Director's fee in March 2016.

Remuneration payable to senior management other than the Directors for the year ended 31 December 2016

Since all three members of the senior management of the Company are acting as Executive Directors as well, further particulars regarding the emoluments of the members of the senior management, Directors and the five highest paid individuals as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7(c) and 7(b) to the financial statements.

Report of Corporate Governance

Nomination Committee

The Nomination Committee currently consists of three members, including two independent non-executive Directors, namely Mr. Kwan Kai Cheong and Mr. Yen Yuen Ho, Tony, and one executive Director, namely Mr. Li, Alan. Mr. Yen Yuen Ho, Tony is the chairman of the Nomination Committee.

The Nomination Committee is authorised to formulate nomination policy for the Board's consideration and implement the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship and senior management. In reviewing the Board composition, the Nomination Committee shall give adequate consideration to the Company's policy on board diversity. While selecting candidates for directorship, the committee has taken into account of a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience and qualification, skills and knowledge. The committee believes that the current composition of the Board is balanced and diversified with the high-calibre members from different cultural backgrounds and possessing professional expertise of various industries, which indicates that the diversity policy has been well implemented.

The main responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least once a year and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and identify individuals suitably qualified to become Directors and select, or make recommendations to the Board on the selection of individuals nominated for directorships and senior management, the appointment or reappointment of Directors and succession planning for Directors. The committee is also responsible for assessing the independence of independent non-executive Directors.

The Nomination Committee held one meeting to deal with the following matters during the year 2016:

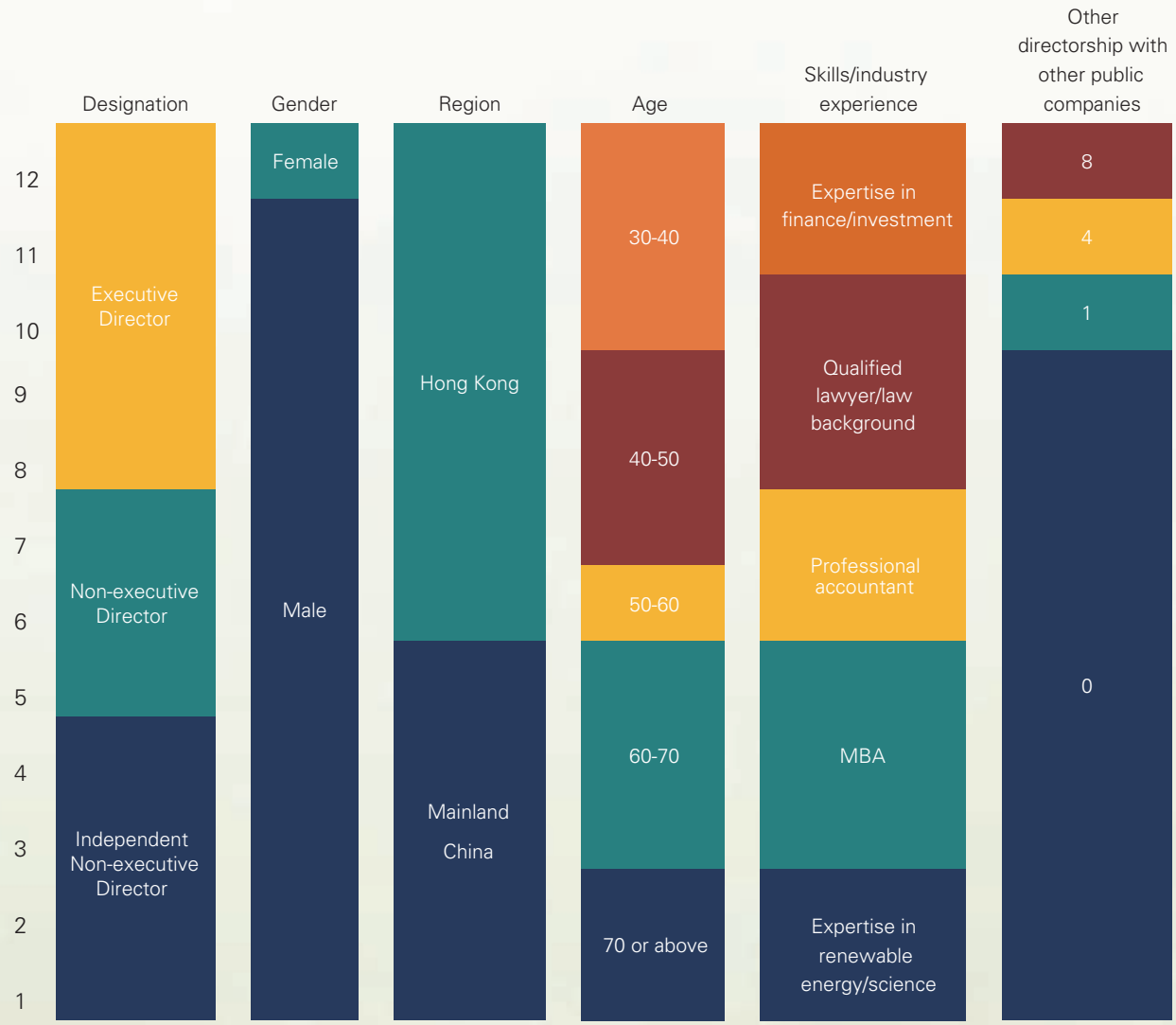
Summary of work done during the year in 2016

- reviewed the structure, size, composition and diversity of the Board and the Board Diversity Policy of the Company;
- discussed and made recommendations on re-election of retiring Directors in the AGM for the year 2016; and
- assessed the independence of the independent non-executive Directors.

The Board Diversity Policy which has been adopted in 2013 outlines the Company's commitment to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. It also sets out the approach to diversity of the members of the Board pursuant to which all board members will be appointed based on a merit basis with due consideration to the Board diversity.

Report of Corporate Governance

An analysis of the current Board composition:



Report of Corporate Governance

Risk Control Committee

The Risk Control Committee currently consists of five members, including one independent non-executive Director, namely Mr. Kwan Kai Cheong, one non-executive Director Mr. Tang Wenyong and three executive Directors, namely Mr. Li, Alan, Mr. Lu Zhenwei and Mr. Li Hong. Mr. Lu Zhenwei is the chairman of the Risk Control Committee.

The aim of the Risk Control Committee is to strengthen the risk analysis, judgement, decision making of the Board. The main responsibilities of the Risk Control Committee are to assist the Board in evaluating and deciding the risk level and risk appetite of the Group in achieving its strategic and business objectives, in identifying, mitigating and control of risks associated with significant investments, material operation and financial matters and other major activities of the Group, and in making recommendations on improvement of the risk management and internal control systems of the Company.

During the year ended 31 December 2016, the Risk Control Committee held seven meetings to review and conduct risk assessment on acquisition transactions and made recommendation to the Board for consideration or otherwise make suggestions to the management. Transactions reviewed by the Risk Control Committee during the year ended 31 December 2016 and have already been disclosed include:–

- acquisition of the entire equity interest in a project company which owns and operates a grid-connected solar power plant project with an installed capacity of approximately 20MW located in Wujiaqu, Xinjiang, the PRC, which was completed on 13 April 2016;
- acquisition of the entire equity interest in a project company which owns and operates a grid-connected solar power plant project with an installed capacity of approximately 35MW located in Yunnan Province, the PRC, which was completed on 14 July 2016;
- acquisition of the entire equity interest in a project company which owns and operates a grid-connected solar power plant project with an installed capacity of approximately 20MW located in Hebei Province, the PRC, which was completed on 5 August 2016;
- acquisition of the entire equity interest in a project company which owns and operates a grid-connected solar power plant project with an installed capacity of approximately 40MW located in Yantai City, Shandong Province, the PRC, which was completed on 20 October 2016;
- acquisition of 50% equity interest in a project company which owns and operates a grid-connected solar power plant project with an installed capacity of approximately 200MW located in Ningxia, the PRC, which was completed on 28 November 2016; and
- acquisition of a portfolio of operational solar power plants with an installed capacity of approximately 82.4MW located in the UK, which was completed on 27 January 2017.

The Risk Control Committee also reviewed other transactions involving acquisition of certain solar power plants, which are still in negotiation with the relevant parties.

Report of Corporate Governance

The attendance records of each Director at board meetings, committee meetings and general meetings of the Company in 2016 are set out below:

	Attendance Record of Directors and Committee Members in 2016					
	Board meetings	General meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Risk Control Committee meetings
Number of meetings	15	3	3	1	1	7
Executive Directors						
Mr. Li, Alan	14/15	1/3	–	–	1/1	7/7
Mr. Lu Zhenwei	11/15	2/3	–	–	–	7/7
Mr. Li Hong	15/15	2/3	–	–	–	7/7
Ms. Qiu Ping, Maggie	15/15	3/3	–	–	–	–
Non-executive Directors						
Academician Yao Jiannian	11/15	2/3	–	–	–	–
Mr. Tang Wenyong	11/15	2/3	3/3	1/1	–	4/7
Independent non-executive Directors						
Mr. Kwan Kai Cheong	15/15	2/3	3/3	1/1	1/1	7/7
Mr. Yen Yuen Ho, Tony	13/15	3/3	3/3	1/1	1/1	–
Mr. Shi Dinghuan	5/15	1/3	–	–	–	–
Mr. Ma Kwong Wing	15/15	3/3	–	–	–	–

Notes:
Mr. Jiang Wei and Mr. Li Hao were appointed as Directors of the Company on 20 March 2017 and their attendance record will be included in the 2017 report.

Report of Corporate Governance

Strategy Committee

The Strategy Committee has been newly established with effect from 20 March 2017 and the Strategy Committee will hold meeting on annual basis and may hold additional meeting as necessary to discharge its duties and responsibilities.

The aim of the Strategy Committee is to further facilitate and guide the research and implementation of the business development and the strategic planning of the Group, as well as to enhance the decision-making procedures of the major matters of the Company and strengthen the corporate governance structure of the Company. The main responsibilities of the Strategy Committee are to assist the Board in formulating and evaluating the development strategy and implementation plan of the Group in achieving its medium-term and long-term strategic goals and make recommendations to the Board in relation to major corporate actions and investments of the Group.

The Strategy Committee currently consists of three members, including one executive Director, namely Mr. Li, Alan, and Mr. Zou Yiqiao and Mr. Lam Tsz Cheung (alias Anthony Lam). Mr. Zou Yiqiao is the chairman of the Strategy Committee.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Our Board is accountable to the Shareholders and responsible for the preparation of the financial statements of the Group. We recognise the importance of integrity of financial information and endeavour to present to our Shareholders a balanced, clear and understandable assessment of the performance, position and prospects of the Group. Our Board also acknowledges its responsibility for preparing the financial statements that give a true and fair view of the Group's affairs and of its results and cash flows. Our Board receive from the management such explanation and information as necessary to enable it to assess the financial information and position of the Group.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The accounting policies have been consistently applied to all the years presented, unless otherwise stated. The preparation of financial statements in conformity with HKFRS requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the note 4 to the financial statements.

As set out in the Note 2.1.1 of the consolidated financial statements, the Group's current liabilities exceeded its current assets by 594 million as at 31 December 2016. In addition, as described in Note 2.1.1, the Group also made certain contractual and other arrangement which need substantial amount of funds in the foreseeable future to finance capital expenditures. These conditions indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding the conditions described above and in the Independent Auditor's Report, the consolidated financial statements have been prepared on the assumption that the Group will be able to operate as a going concern for the foreseeable future.

Report of Corporate Governance

The Board is of the view that the Group has sufficient cash resources to satisfy their working capital and other financial obligations for the next twelve months from the date of approval of this report after having taken into account the Group's projected cash flows, current financial resources and capital expenditure requirements, and the measures implemented as disclosed in Note 2.1.1 to financial statements. Accordingly, the Board is of the view that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance and the Listing Rules.

INTERNAL CONTROL AND RISK MANAGEMENT

Our Board is overall responsible for evaluating and determining the nature and extent of risks that the Group is willing to take in achieving its strategic objectives, and establishing and maintaining sound and effective risk management and internal control systems. On an on-going basis, our Board performs supervision and annual inspection on the effectiveness of the internal control system and risk management.

Through the Audit Committee, our Board has conducted a review of the effectiveness of the internal control system of the Group and reviewed the works done by the Internal Audit Department which has a primary role in assessing and evaluating the effectiveness of the internal control system and acts independently and reports to the Board and the Audit Committee. The Audit Committee considers that the existing internal control system is effective and adequate.

Our Board has also delegated the management and the implementation of risk control procedures to the Risk Control Committee. During the year ended 31 December 2016, the Risk Control Committee continuingly accessed, monitored and controlled the risks that may be incurred in acquisition activities by reviewing financial, legal and technical due diligence reports in respect of the projects produced by independent professional firms.

Dealing with risk is an integral part of how it protects and creates value. Our business is principally engaged in development, investment, operation and management of solar power plants. Understanding emerging risks in the energy industry and establishing effective mitigation measures shows our commitment to a sustainable business. We have identified a number of risks associated with our business, which include:

Weather and climate risk – Solar power plants depend on the amount and intensity of sunlight, which is affected by weather and climate conditions. Adverse meteorological conditions can have a material impact on the plant's output and could result in production of electricity below expected output, which in turn could adversely affect our profitability.

Our response – We select solar power plant projects based on criteria such as solar irradiation and meteorological conditions of the site as part of our main inspections. During the development and maintenance of our solar power plants, we cooperated with the leading suppliers in the PRC to create and develop equipment which can be adapted to different latitude, topography and climatic conditions. At the same time, we built up a professional team in respect of operation and maintenance of our existing solar power plants with strict operation and maintenance policy and risk prevention measures.

Report of Corporate Governance

Policy risk – The Group's results of operations could be affected by government subsidies and incentives for solar energy which are depend, to a large extent, on political and policy developments relating to environmental concerns in the PRC and overseas markets in which our Group operate.

Our response – We select solar power plant projects with applicable feed-in tariff and government subsidies, and strong demand and consumption for electricity in the locality. Also, we select those plants which had been registered onto the Renewable Energy Tariff Subsidy Catalogues or had submitted the application regarding registration onto such catalogues in the PRC or similar regime in overseas markets. In the meanwhile, we proactively communicate with the local governments, grid companies and electricity consumption enterprises to raise more electricity transmission programme.

Development and construction risk – When we develop and construct solar power plants, we must first obtain the relevant local grid company's consent to connect our solar power plants to the local company's grid and appropriate government approvals and registrations. Obtaining such on-grid connection consent and government approvals and registrations may depend on a number of factors, including but not limited to the availability and the reliability of existing grids, the progress of construction and the quality of these grid connection facilities, efficiency of the administrative bodies and the regulatory framework. Failure or delay in obtaining such consent, approvals or registrations may delay or prevent the development of our solar power projects.

Our response – We employ a strict and systematic approach to evaluate potential development project. Throughout the development process, our procurement and construction department organizes and collect bids, communicate with bidders and coordinate with our development teams to meet all local technical and legal requirements for on-grid connection and construction of our projects. We will assess location of development site and secure site control for project development. We believe that our methodical approach to potential development of solar power projects, together with our deep industry knowledge, strong and long-standing relationship with other stakeholders will lend us an advantage in development of solar power projects.

Operation and maintenance risk – A majority of our existing solar power plant are scattered across different regions in the PRC, the area our plants located is large and the number of devices is huge. The ongoing operation of our facilities involves risks that include the breakdown or failure of equipment or processes or performance below expected levels of output or efficiency due to wear and tear, latent defects, design error, operator error or force majeure events, among other things. Curtailment of electricity we produce in the PRC could have an adverse impact on our results of operations.

Our response – We maintain an updated list of qualified and reliable suppliers and third-party contractors with a proven track record to provide EPC or O&M services, through a bidding process or through our affiliates or other cooperative arrangements, to ensure the qualities of services. At the same time, we regularly maintain our solar power plants with an intention to maximize the utilization rate, rate of power generation and system life of our solar power plants. We utilize customized software "Global Smart PV Cloud Management" to allow for remote and centralized management of all our solar power plants, and mobile applications and devices to constantly and closely monitor and manage the performance and security of our solar power plants on a real-time basis and to ascertain the cause of any operational problems very shortly after it arises for efficient remedial or mitigation actions. We engage on the ground contractors who are on call to promptly remedy any issues that may rise. Development transmission infrastructure and our participation in more power market transactions including inter-provincial solar power transmission, which helps to mitigate loss from curtailment.

Report of Corporate Governance

Competition risk – We face competition from local and international developers of solar power plants, many of whom are integrated with upstream manufacturers, and other renewable power producers, such as wind and hydro power producers. We also face competition in circumstances where large local and multinational corporations operating in the PRC establish their own distributed solar power projects.

Our response – We have an established track record in acquiring, developing and operating a high quality and well diversified solar power plants portfolio across the PRC. Our leading market position and extensive experience in the PRC solar power industry give us the opportunity to participate in solar energy policy discussions and have significant influence in the development of industry related policies and standards. In 2013, Mr. Li, Alan, our chief executive officer and board chairman, collaborated with state-owned enterprises to establish the Photovoltaic Green Ecosystem Organization, which was the first organization in the PRC that sought to connect and encourage collaboration among the numerous photovoltaic companies distributed across the value chain of the PRC solar power industry, and is believed to have significantly expanded the development and construction of utility-scale solar power plants in China. We believe that our significant scale and leading position in the PRC solar power industry provide us with economies of scale, a broad base of operational experience and resources, bargaining power with EPC contractors and suppliers, and significant industry and regulatory relationships, which will continue to provide us with attractive solar power plant acquisition and development opportunities.

Finance risk – Solar energy business requires intensive capital investments. Significant amount of capital is required to meet our capital requirements and fund our operations, including payments to suppliers for photovoltaics modules and balance of system components and to contractors for design, engineering, procurement and construction services. Our ability to meet the payment obligations of our outstanding debt depends on our ability to generate significant cash flow in the future and obtaining external financing. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control.

Our response – Our leading position in the PRC solar power industry, support from our shareholders and strong relationships with our lending banks provide us with access to a variety of tailored financing solutions, including onshore solutions, such as finance lease and project finance, and offshore solutions, such as equity financing, through new share allotments and issuances of warrants, and debt financing, through issuances of medium term notes, convertible bonds and offering of US senior notes. We plan to actively reduce our financing costs and further diversify our channels of financing. We believe our stable cash flow profile, the long-term nature of our operating solar power plants and our ability to raise equity and debt capital to finance growth, provide us with flexibility to optimize our capital structure.

DIRECTORS' SECURITIES TRANSACTIONS

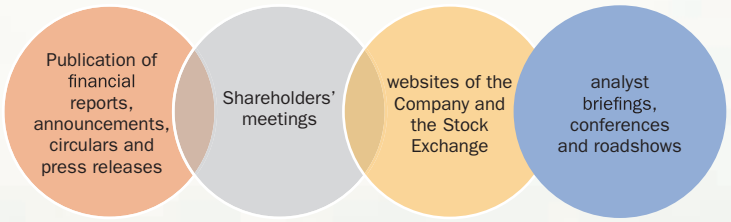
We have adopted a code for securities transactions by Directors on terms no less exacting than the required standard of the model code as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry to all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code and our own code throughout the year ended 31 December 2016.

COMPANY SECRETARY

Ms. Qiu, Ping Maggie, re-designated as an executive Director from a non-executive Director on 28 August 2015, was appointed as the company secretary of the Company on 10 August 2013. Ms. Qiu has day-to-day knowledge of the Group's business. Ms. Qiu reports to the Chairman and CEO. The biographical details of Ms. Qiu are set out under the section headed "Biographies of directors and senior management" section of this annual report. During the year ended 31 December 2016, Ms. Qiu has taken more than 15 hours of relevant professional trainings according to Rule 3.29 of the Listing Rules.

Report of Corporate Governance

SHAREHOLDERS' COMMUNICATION



We adopted a shareholders communication policy on 26 March 2013, which stipulates the objectives of the Company in communicating with its Shareholders, both individual and institutional, and, where appropriate, the investment community at large. The Company aims to provide its Shareholders timely and understandable information, and allow the Shareholders to engage actively with the Company and exercising their rights.

Information are communicated to the Shareholders mainly through general meetings, our website (www.unitedpvgroup.com) and corporate communications including interim and annual reports, notice, announcements and circulars which are available on our website and that of the Stock Exchange and hard copies of reports and circular are sent to the Shareholders.

Corporate strategies and latest business development of the Group are also communicated with investors and analysts through various investor relations activities such as analyst briefings, conferences and roadshows. Details of investor events are disclosed in "Investor Relations" section under this report.

Our Board is dedicated to maintaining an on-going dialogue with Shareholders of the Company. Shareholders are encouraged to participate in general meetings or appoint proxies to attend and vote at general meetings for and on behalf of them if they are unable to attend in person. Directors will make an effort to attend and the external auditor is also available at the AGM to address Shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address Shareholders' queries. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at general meetings would be taken by poll.

The important dates for corporate events of the Company are set out in the IR Calendar under the Investor Relations section of the Company's website.

Report of Corporate Governance

Shareholders' rights

Calling and putting forward proposals at a general meeting of the Company

Pursuant to Bye-law 58 of the Bye-laws, Shareholders holding at the date of deposit of requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. Such written requisition must be duly signed by the Shareholders concerned and to be verified by the Company's share registrar. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

To request to convene an SGM, the requisitionists shall deposit their requisition in writing, together with the proposals to be considered at such meeting, at the principal place of business of the Company in Hong Kong as announced by the Company from time to time and for the attention of the Chairman of the Board and the Company Secretary. The requisition will be verified with the Company's share registrars. If it is in order, the Company Secretary will pass the requisition to the Board for consideration and an SGM will be convened by sufficient notice to all the registered Shareholders in accordance with the requirements under the Bye-laws. On the contrary, if the requisition is invalid, no SGM will be convened and the requisitionists will be advised of this outcome.

To put forward proposals at a Shareholders' meeting of the Company, a Shareholder should lodge a written request setting out the proposals duly signed by the Shareholder concerned at the principal place of business of the Company in Hong Kong as announced by the Company from time to time and for the attention of the Chairman and the Company Secretary. The request will be verified by the Company's share registrars. If it is in order, the Company Secretary will pass the request to the Board for consideration. The Board will decide whether it is valid and appropriate to put such proposals at a Shareholders' meeting.

Proposing a candidate for election as a Director at a general meeting

Pursuant to Bye-law 85 of the Bye-laws, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a written notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office (as defined in the Bye-laws) provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgement of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Report of Corporate Governance

Accordingly, to nominate a person for election as a Director, a Shareholder shall lodge a written notice duly signed by the Shareholder concerned at the principal place of business of the Company in Hong Kong as announced by the Company from time to time and for the attention of the Company Secretary. In order for the Company to inform all Shareholders of that proposal, the written notice must include the following information: (i) the full name of the person proposed for election as a Director; (ii) his/her biographical details as required under Rule 13.51(2) of the Listing Rules; and (iii) the candidate's written confirmation on his/her willingness to be elected as a Director and written consent to the publication of his/her personal data as required by the Listing Rules. The notice will be verified by the Company's share registrars. If it is in order, the Company Secretary will pass the notice to the Company's Nomination Committee for examination. The Nomination Committee will assess the suitability of the candidate proposed by the Shareholder and make recommendations to the Board on the selection of individuals nominated for directorship if it thinks fit and appropriate. If such notice is received by the Company after publication of the notice of the Shareholders' meeting concerned, the Company will publish an announcement or issue a supplementary circular setting out the particulars of the proposed Director and may need to adjourn the Shareholders' meeting as and when required by the Bye-laws.

We have posted on our Company's website the procedures for Shareholders to convene and put forward proposals at general meetings including proposing a person for election as a Director, and to vote by poll at general meetings.

Enquiries

Shareholders may directly enquire about their shareholdings to the Company's share registrar. To the extent the requisite information of the Company is publicly available, Shareholders and the investment community who have enquiries in respect of the Company may write to the Company Secretary by post to Unit 1012, 10/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong or by email to csd@unitedpvgroup.com.

Our Board has reviewed corporate governance practices of the Company during the year ended 31 December 2016 and this corporate governance report. It will continue to review, monitor and improve the policies and practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance of the Company.

Directors' Report

Our Board is pleased to present their report together with the audited consolidated financial statements of United Photovoltaics Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016, being the year under review.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and operates its businesses through its subsidiaries. The Group is principally engaged in development, investment, operation and management of solar power plants.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016 (2015: Nil).

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for each of the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 167 of this annual report. This summary does not form part of the consolidated financial statements for the year ended 31 December 2016.

SHARE CAPITAL

Details of the share capital of the Company and its movements during the year ended 31 December 2016 are set out in note 21 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds of the Company during the year are set out in note 23 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or Companies Act 1981 of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY

As of 31 December 2016, the Company had no reserve (31 December 2015: nil) available for distribution as computed in accordance with the Companies Act 1981 of Bermuda. However, the Company's share premium account in the amount of RMB4,602 million as at 31 December 2016 (31 December 2015: RMB4,511 million) may be distributed in the form of fully paid bonus shares.

DONATION

During the year under review, the Group had made donations of approximately RMB800,000 (2015: RMB3,800,000).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 28.4% and 100% respectively (2015: approximately 28.3% and 88.7% respectively) of the Group's total revenue for the year under review.

None of the Directors or any of their associate(s) or any substantial shareholder of the Company (which to the best knowledge of the Directors) owns more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors during the year and up to the date of this annual report are as follows:

Executive Directors

Mr. Li, Alan *(Chairman and CEO)*
Mr. Lu Zhenwei
Mr. Li Hong
Ms. Qiu Ping, Maggie
Mr. Jiang Wei *(appointed on 20 March 2017)*

Non-executive Directors

Academician Yao Jiannian
Mr. Tang Wenyong
Mr. Li Hao *(appointed on 20 March 2017)*

Independent non-executive Directors

Mr. Kwan Kai Cheong
Mr. Yen Yuen Ho, Tony
Mr. Shi Dinghuan
Mr. Ma Kwong Wing

Directors' Report

In accordance with Section 83(2) of the bye-laws of the Company (the "Bye-laws"), Mr. Jiang Wei and Mr. Li Hao, being Directors appointed by the Board effective from 20 March 2017, shall hold office until the forthcoming annual general meeting (the "AGM") and shall be eligible for re-election at the AGM. In accordance with Section 84 of the Bye-laws, Mr. Li, Alan, Mr. Lu Zhenwei, Mr. Yen Yuen Ho, Tony, and Mr. Ma Kwong Wing, being one-third of the Directors, shall retire from office by rotation and be eligible for re-election at the AGM.

None of the Directors proposed for re-election at the AGM has entered into any service contracts with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company has assessed their independence and considers that all of the independent non-executive Directors are independent in accordance with guidelines set out in the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 12 to 15 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the connected transactions are set out in the section headed "Connected Transactions" below.

Save as disclosed, no contract of significance in relation to the Group's business to which the Company, any of its subsidiaries, its holding company, or any subsidiary of its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2016, the interests of the Directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules, were as follows:

Long Positions in ordinary shares of HK$0.10 each in the Company (the "Shares")

	Number of Shares			
Name of directors	**Personal interests**	**Corporate interests**	**Other interests**	**Percentage of issued share capital of the Company as of 31 December 2016**
Mr. Li, Alan	10,005,000	159,404,314 (note 1)	–	3.43%
Mr. Li Hong	1,270,600	–	2,801,400 (note 2)	0.08%
Ms. Qiu Ping, Maggie	4,002,000	–	–	0.08%

Notes:

1. Among the 159,404,314 Shares, 141,230,827 Shares are held by Magicgrand Group Limited ("Magicgrand"), which is incorporated in the British Virgin Islands and beneficially wholly-owned by Mr. Li, Alan. The other 18,173,487 Shares are held by Pairing Venture Limited, which is incorporated in the British Virgin Islands and wholly-owned by Mr. Li, Alan.

2. Mr. Li Hong, by undertaking to work for China Solar Power Group Limited ("CSPG"), a wholly-owned subsidiary of the Company, for a period of three years and subject to performance review, is entitled to receive, from a trustee company, 2,801,400 shares.

Other than disclosed above and in the section headed "Share Option Scheme", none of the Directors or the chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules as of 31 December 2016.

Directors' Report

INDEMNITY TO DIRECTORS

Under the Bye-Laws of the Company, every Director is entitled to be indemnified out of the assets and profits of the Company against all actions and losses which he/she may incur or sustain or in or about the execution/discharge or the duties of his/her office or otherwise in relation thereto, to the extent as permitted by law.

Furthermore, during the year, the Company has taken out and maintained appropriate director's and officers' liability insurance to protect the directors of the Company or its subsidiaries against potential costs and liabilities arising from claims brought against them.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above and "Share option scheme" below, at no time during the year under review was the Company, any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such right during the year under review.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 19 June 2012, the Shareholders approved the adoption of a share option scheme (the "Option Scheme").

On 8 January 2015, 64,500,000 share options to subscribe for 64,500,000 Shares were granted under the Option Scheme. On 28 January 2016, 36,568,319 share options to subscribe for 36,568,319 Shares were granted under the Option Scheme. Details of the share options granted under the Option Scheme to the Directors and employees of the Group and movement in such holding during period under review are as follows:

					Changes during the year				
	Date of grant	Exercise price (HK$/Share)	Closing price before the date of grant (HK$/Share)	Outstanding at 1 January 2016	Granted	Exercised	Lapsed	Outstanding at 31 December 2016	Exercisable period (note 1)
Directors									
Mr. Li, Alan	8 January 2015	1	1	6,000,000	–	–	–	6,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	3,000,000	–	–	3,000,000	28 January 2017 to 27 January 2021
Mr. Lu Zhenwei	8 January 2015	1	1	2,000,000	–	–	–	2,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	3,000,000	–	–	3,000,000	28 January 2017 to 27 January 2021

Directors' Report

					Changes during the year				
	Date of grant	Exercise price (HK$/Share)	Closing price before the date of grant (HK$/Share)	Outstanding at 1 January 2016	Granted	Exercised	Lapsed	Outstanding at 31 December 2016	Exercisable period (note 1)
Mr. Li Hong	8 January 2015	1	1	2,000,000	–	–	–	2,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	3,000,000	–	–	3,000,000	28 January 2017 to 27 January 2021
Ms. Qiu Ping, Maggie	8 January 2015	1	1	3,000,000	–	–	–	3,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	3,000,000	–	–	3,000,000	28 January 2017 to 27 January 2021
Mr. Jiang Wei	8 January 2015	1	1	2,000,000	–	–	–	2,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	1,000,000	–	–	1,000,000	28 January 2017 to 27 January 2021
Academician Yao Jiannian	8 January 2015	1	1	3,000,000	–	–	–	3,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	1,000,000	–	–	1,000,000	28 January 2017 to 27 January 2021
Mr. Tang Wenyong	28 January 2016	0.564	0.54	–	1,000,000	–	–	1,000,000	28 January 2017 to 27 January 2021
Mr. Kwan Kai Cheong	8 January 2015	1	1	2,000,000	–	–	–	2,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	1,000,000	–	–	1,000,000	28 January 2017 to 27 January 2021
Mr. Yen Yuen Ho, Tony	8 January 2015	1	1	2,000,000	–	–	–	2,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	1,000,000	–	–	1,000,000	28 January 2017 to 27 January 2021

Directors' Report

	Date of grant	Exercise price (HK$/Share)	Closing price before the date of grant (HK$/Share)	Outstanding at 1 January 2016	Changes during the year			Outstanding at 31 December 2016	Exercisable period (note 1)
					Granted	Exercised	Lapsed		
Mr. Shi Dinghuan	8 January 2015	1	1	2,000,000	–	–	–	2,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	1,000,000	–	–	1,000,000	28 January 2017 to 27 January 2021
Mr. Ma Kwong Wing	8 January 2015	1	1	2,000,000	–	–	–	2,000,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	1,000,000	–	–	1,000,000	28 January 2017 to 27 January 2021
Other officers and employees	8 January 2015	1	1	27,800,000	–	–	(2,100,000)	25,700,000	8 January 2016 to 7 January 2020
	28 January 2016	0.564	0.54	–	18,568,319	–	(1,918,000)	16,650,319	28 January 2017 to 27 January 2021
Total				**51,800,000**	**36,568,319**	**–**	**(4,018,000)**	**84,350,319**	

(1) All share options granted by the Company shall vest in three tranches within a period of 3 years in proportions of 30%, 30% and 40% of the share options granted, i.e. 30% of the share options granted shall vest on the 1st anniversary of the grant, another 30% shall vest on the 2nd anniversary of the grant, and the remaining 40% shall vest on the 3rd anniversary of the grant. In this table, "exercisable period" begins with the 1st anniversary of the grant date.

During the year under review, no participant was granted with share options in excess of individual limit. A summary of the Option Scheme is set out in note 21(b) to the consolidated financial statements.

As at 31 December 2016, 3,818,000 share options to subscribe for a total of 3,818,000 Shares were available for issue under the Option Scheme.

Directors' Report

EQUITY INCENTIVE SCHEME

Details of the equity incentive scheme are set out in note 21(c) to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following Shareholders (other than those disclosed in the section headed "Directors' and Chief Executives' interests in Shares, Underlying Shares and Debentures") had notified the Company/the Stock Exchange of relevant interests and short positions in the shares or underlying shares of the Company.

Name of shareholder	Capacity	Number of shares held	Number of underlying shares held	Percentage of the issued share capital of the Company as of 31 December 2016
China Merchants Group Limited* (招商局集團有限公司) ("China Merchants") (note 1)	Interest in controlled corporation	1,439,849,631 (note 2)	1,350,715,767 (note 3)	56.44%
Snow Hill Developments Limited ("Snow Hill") (note 2)	Beneficial owner	103,111,436	–	45.36%
	Interest in controlled corporation	1,336,738,195 (note 4)	802,984,274	
China Merchants New Energy Group Limited ("CMNEG") (note 4)	Beneficial owner	1,336,738,195	802,984,274	43.28%
China Merchants Fund Management Limited* (招商基金管理有限公司) ("CM Fund") (note 5)	Investment Manager	–	547,731,493	11.08%
New Energy Exchange Limited ("NEX") (note 6)	Beneficial owner	274,055,449	33,293,000	7.46%
	Interest in controlled corporation	61,627,621	–	
ORIX Corporation (note 7 & note 8)	Interest in controlled corporation	1,074,138,234	387,810,759	29.57%
	Interest in controlled corporation	333,247,334	120,316,825	9.17%
Asia Climate Partners LP	Beneficial owner	333,247,334	120,316,825	9.17%
Jiangsu Zhongli Group Co., Ltd. * (江蘇中利集團股份有限公司) (note 9)	Interest in controlled corporation	299,922,000	79,948,000	7.68%
China Huarong Asset Management Co., Ltd.	Interest in controlled corporation	50,000,000 (note 10)	1,227,530,424 (note 11)	25.84%
Qingdao City Construction Investment (Group) Co., Ltd.	Interest in controlled corporation	–	486,564,540 (note 12)	9.84%

Directors' Report

Notes:

1. As at 31 December 2016, China Merchants and together with other parties acting in concert with CMNEG under Section 317 of the SFO were interested in 23.72% ordinary shares and a total interest in 56.44% shares and underlying shares based on 4,944,310,325 Shares in issue and subject to the terms of the convertible bonds.
2. These Shares (including Shares issued on 20 March 2017 pursuant to subscription agreements dated 20 September 2016) are beneficially held by Snow Hill, which is an indirect wholly-owned subsidiary of China Merchants.
3. Among these 1,350,715,767 underlying shares, 802,984,274 underlying shares are held by CMNEG and 547,731,493 underlying shares are held by CM Fund.
4. These Shares are held by CMNEG, which is owned as to 79.36% by Snow Hill and as to 20.64% by Magicgrand. Magicgrand is beneficially wholly owned by Mr. Li, Alan, an executive Director and chief executive officer of the Company.
5. CM Fund is owned as to 55% by China Merchants Bank Co., Ltd. and as to 45% by China Merchants Securities Co., Limited, and China Merchants holds 44.09% interest in China Merchants Securities Co., Limited. Accordingly each of its shareholders and China Merchants is deemed to have interest in those 547,731,493 Shares.
6. NEX is a party acting in concert with CMNEG according to Section 317 of the SFO.
7. These Shares issued on 20 March 2017 under a subscription agreement dated 20 September 2016 are held by ORIX Asia Capital Limited, which is a wholly-owned subsidiary of ORIX Corporation.
8. On 14 December 2016, ORIX Asia Capital Limited entered into a conditional assignment with Asia Climate Partners LP with respect to the assignment of rights and obligations in relation to subscription of 333,247,334 Shares and 120,316,825 underlying shares under a subscription agreement dated 20 September 2016, and the completion of such agreement took place on 20 March 2017.
9. These Shares are held by Zhongli New Energy (Hong Kong) Investment Limited, which is directly and wholly owned by Suzhou Talesun Solar Technologies Co., Ltd, a wholly-owned subsidiary of Jiangsu Zhongli Group Co., Ltd. Jiangsu Zhongli Group Co., Ltd. is owned as to 41.76% by Mr. Wang Baixing, and Mr. Wang Baixing is deemed to have interest in those 299,922,000 Shares and 79,948,000 underlying shares accordingly.
10. These shares are held by Power Revenue Limited, which is an indirect non-wholly owned subsidiary of China Huarong Asset Management Co., Ltd.
11. Among these 1,227,530,424 underlying shares, 596,153,846 underlying shares are held by Power Revenue Limited and 672,328,521 underlying shares are held by Driven Innovation Limited, which is an indirect wholly-owned subsidiary of China Huarong Asset Management Co., Ltd.
12. These Shares are held by Huaqing Solar Power Limited, which is indirectly wholly owned by Qingdao City Construction Investment (Group) Co., Ltd.
13. Further to the shareholders as set out in the above table, as at 31 December 2016, each of China Green Holdings Limited, Sino Arena Investments Limited, Magicgrand and Pairing Venture Limited, being parties acting in concert with CMNEG according to Section 317 of the SFO, was holding 2,205,621 Shares, 63,568,708 Shares, 141,230,827 Shares and 18,173,487 Shares of the Company respectively.

Save as disclosed above, the Directors are not aware of any person (not being a Director) who, as at 31 December 2016, had an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was recorded in the register required to be kept under Section 336 of Part XV of the SFO or who (other than a member of the Group) was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Directors' Report

CONNECTED TRANSACTIONS

The following are summaries of connected transactions which were disclosed in the Company's announcements and/or circulars during the year under review:

(1) Financial advisory services in relation to overseas power plant projects

On 17 June 2016, the Company and China Merchants Securities (HK) Co., Limited ("CMSHK") entered into a financial advisory agreement (the "June Advisory Agreement"), pursuant to which CMSHK will act as the sole financial advisor to the Company and provide the Company with comprehensive and professional financial advisory and consultation services with specific reference to potential opportunity to acquire certain solar power plant projects in Europe as identified by the Company. The Company shall pay a success-based advisory fee of US$2.5 million to CMSHK. CMSHK is a connected person of the Company and accordingly, the June Advisory Agreement constituted a connected transaction of the Company under the Listing Rules.

Details of the June Advisory Agreement were disclosed in the Company's announcement dated 17 June 2016.

(2) Share subscription

On 20 September 2016, the Company entered into a subscription agreement with CMNEG, a substantial shareholder of the Company in relation to the issue of and subscription for (i) a maximum of 756,793,945 Shares at HK$0.5814 per Share and (ii) a maximum of 362,948,274 warrants at the issue price of HK$0.000775 per warrant, each of which will entitle the warrant holder(s) to subscribe in cash for one Share at the subscription price of HK$0.646 (subject to adjustment) during 3 years after issue under the specific mandate (the "CM Subscription"). CMNEG is a connected person of the Company and accordingly, the CM Subscription constituted a connected transaction of the Company under the Listing Rules.

Mr. Lu Zhenwei, Mr. Li, Alan and Mr, Tang Wenyong are also the directors of CMNEG. Details of the CM Subscription were disclosed in the Company's announcement dated 21 September 2016 and the circular dated 10 November 2016. The transaction was approved by the independent shareholders on the special general meeting held on 28 November 2016. Completion of the CM Subscription took place on 20 March 2017.

(3) Financial advisory services in relation to share issue and amendment of terms of convertible bonds

On 7 November 2016, the Company and CMSHK entered into another financial advisory agreement with respect to the provision of comprehensive and professional financial advisory and consultation services in relation to the equity investment by CMNEG in the Company and amendment of terms of certain convertible bonds of the Company to allow redemption before their respective maturity dates (the "November Advisory Agreement"). The Company shall pay a success-based advisory fee of not more than HK$8.8 million to CMSHK. CMSHK is a connected person of the Company and accordingly, the November Advisory Agreement constituted a connected transaction of the Company under the Listing Rules.

Details of the November Advisory Agreement were disclosed in the Company's announcement dated 7 November 2017.

Directors' Report

(4) Acquisition of 49% equity interest in Changzhou Guangyu

On 19 September 2016, the Company and United Photovoltaics (Changzhou) Investment Co., Ltd*(聯合光伏(常州)投資有限公司)("UP(Changzhou)"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Shenzhen China Merchants Yinke Investment Management Limited*(深圳市招商局銀科投資管理有限公司)("CM Yinke"), in relation to the acquisition of 49% equity interest in Changzhou Guangyu New Energy Company Limited*(常州光昱新能源有限公司)("Changzhou Guangyu") held by CM Yinke, at a consideration of RMB20,860,011 in cash. CM Yinke is a connected person of the Company and accordingly, the acquisition of interest in Changzhou Guangyu constituted a connected transaction of the Company under the Listing Rules.

Mr. Lu Zhenwei is also a director of CM Yinke. Details of the acquisition of 49% equity interest in Changzhou Guangyu were disclosed in the Company's announcement dated 19 September 2016. Completion of the acquisition took place on 1 November 2016, and Changzhou Guangyu became a wholly-owned subsidiary of the Company.

CONTINUING CONNECTED TRANSACTIONS

All applicable percentage ratios of the annual caps of continuing connected transactions of the Group which took place during the year ended 31 December 2016 are lower than 5% and the annual caps are all less than HK$3 million. Therefore, continuing connected transactions took place during the year are fully exempted from shareholders' approval, annual review and all disclosure requirements under the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no Director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which the Directors were appointed as directors to represent the interest of the Company and/or the Group.

CORPORATE GOVERNANCE

For the year ended 31 December 2016, the Company has applied the principles and complied with all the code provisions of the corporate governance code (the "CG Code") as set out in Appendix 14 to the Listing Rules, save for the following deviation.

Mr. Li, Alan, an executive Director, is the CEO and the Chairman of the Board. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Board believes that the balance of power and authority between chairman and chief executive will not be impaired by the present arrangement, and the significant weight of the non-executive directors (including the independent ones) and satisfactory diversification level of the Board will enable it as a whole to effectively exercise its non-bias judgement.

More Information on the Company's corporate governance practice is set out in the Report of the Corporate Governance accompanying this annual report.

Directors' Report

EMOLUMENT POLICY

The Group remunerates its employees, including the Directors, based on their performance, experience, qualifications, competence and prevailing market comparables. Remuneration packages generally comprise salary, contribution to pension schemes and bonuses relating to the individual's performance and his/her contribution to the Group's business.

The Company has adopted the Option Scheme as an incentive to directors, consultants and eligible employees. CSPG, a wholly-owned subsidiary of the Company, has the Equity Incentive Scheme in place to reward the directors, employees and consultants of CSPG and its subsidiaries with Shares of the Company. Details of the Option Scheme and Equity Incentive Scheme are set out under the section headed "Share Option Scheme" and "Equity Incentive Scheme" in this report and in note 21(c) to the consolidated financial statements.

The remuneration policy of the Directors is reviewed by the Company's remuneration committee. The determination of emolument of the Directors had taken into consideration of their expertise, job specifications and prevailing market comparables.

SUFFICIENCY OF PUBLIC FLOAT

Based on information available to the Company and to the best knowledge of the Directors, the Company has maintained a sufficient amount of public float of its issued share capital in the Hong Kong stock market for the financial year ended 31 December 2016 and has continued to maintain a sufficient amount of public float as required under the Listing Rules as at the date of this annual report.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year under review.

FUNDRAISING ACTIVITIES THROUGH ISSUE OF EQUITY/CONVERTIBLE SECURITIES

The Company has conducted fundraising activities through issue of equity/convertible bonds during the year under review. In order to maintain financial flexibility for the Group to manage its business expansion and to raise additional equity capital for the business development and future investment opportunities, the general mandate was approved and granted to the Directors by the Shareholders at the annual general meeting held on 25 May 2016 (the "General Mandate"). Since this annual general meeting, a total of 100,000,000 new Shares and convertible bonds that are convertible into 596,153,846 Shares were issued under the General Mandate, and the Directors were authorised to issue up to 272,708,219 Shares as at the date of this annual report.

Directors' Report

A summary of the fundraising activities conducted during the year ended 31 December 2016 are set out below:

Date of issue	Transaction	Issue price per Share	Market price per Share as at the date the principal terms of issue were fixed	Net proceeds	Net price per Share	Intended use of proceeds	Actual use of proceeds as at date of this report
26 August 2016	Issue of 3-year convertible bonds in the principal amount of US$50,000,000 under general mandate	HK$0.65	HK$0.62	Approximately HK$364.05 million	HK$0.611	General working capital and/or financing capital for expansion of business including the acquisition and operation of the potential solar power plant(s)	All used in connection with solar power plants in the PRC.
28 December 2016	1. Issue of 50,000,000 Shares to Power Revenue Limited under general mandate 2. Issue of 50,000,000 Shares to CMBC International Holdings Limited under general mandate	HK$0.60	HK$0.68	Approximately HK$59.8 million	HK$0.598	General working capital purposes, including business development and refinancing of outstanding debts	85% are used for the repayment of indebtedness and 15% are used for general administrative expenses.

Save as disclosed above, the Company has not completed any other fund raising activities through equity/convertible securities during the year ended 31 December 2016.

AUDIT COMMITTEE

The Board has established its audit committee since 14 March 2000. Currently it consists of three members, including two independent non-executive Directors, namely Mr. Kwan Kai Cheong and Mr. Yen Yuen Ho, Tony, and one non-executive Director, namely Mr. Tang Wenyong. The audit committee is chaired by Mr. Kwan Kai Cheong who is an independent non-executive Director having the relevant professional qualification and expertise in financial reporting matters.

The consolidated financial statements for the year ended 31 December 2016 have been reviewed by the Company's audit committee.

AUDITORS

The consolidated financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at such meeting.

Directors' Report

EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

Details of the events of the Group occurring after the date of statement of financial position are set out in the note 31 to the consolidated financial statements.

The directors' report was approved by the Board on 30 March 2017 and signed by the chairman of the meeting at which the Directors report was approved.

On behalf of the Board

/Signature/
Li, Alan
Chairman and CEO

Hong Kong, 30 March 2017

Independent Auditor's Report

To the Shareholders of United Photovoltaics Group Limited
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of United Photovoltaics Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 85 to 166, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw your attention to Note 2.1.1 to the consolidated financial statements, which states that the Group's current liabilities exceeded its current assets by RMB594 million as at 31 December 2016, and that the Group has certain contractual and other arrangements to settle its financial obligations and various capital expenditures. These matters, along with other matters as described in Note 2.1.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of intangible assets
- Valuation of Call Options
- Valuation of Unlisted Investment
- Change of estimated economic useful lives of power generating modules and equipment

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of intangible assets	
Refer to Note 4(b) (critical accounting estimates and assumptions) and Note 14 of the consolidated financial statements. The Group has concession rights to acquire solar power plant projects from certain vendors, and to develop and operate these solar power plant projects ("Concession Rights") in the People's Republic of China ("PRC"). The Concession Rights are recognised as intangible assets and they will expire in 2017 and 2018 respectively. As at 31 December 2016, the carrying amount of the Concession Rights was RMB917 million.	We inquired of management on the market intelligence of the development and changes of renewable energy industry policies in the PRC and made reference to industry and analyst research reports in considering if there are impairment indicators. We considered the competency, capability and objectivity of the independent external valuer by considering its qualification, relevant experience and relationship with the Group.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Management tests for impairment of the Concession Rights annually or when there are impairment indicators. Independent external valuations are obtained to support management's estimates on the recoverable amount of the Concession Rights. The estimated recoverable amount of Concession Rights is determined based on fair value less costs of disposal using the discounted cash flow ("DCF") approach and various key assumptions and estimates including: – the Group's ability to exercise these Concession Rights to acquire the relevant solar power plant projects from the vendors before they expire; and – discount rates used for individual projects. We focused on this area because the carrying value of the Concession Rights is significant to the consolidated financial statements and the impairment assessment requires the use of significant judgements and estimates to determine the recoverable amount. These estimations are also subject to uncertainties.	We involved our internal valuation specialist in our discussion with the external valuer and management to understand the rationale and assess the appropriateness and consistency of the methodology used and the assumptions and estimates applied. Our procedures in relation to management's key assumptions and estimates applied included: – obtained the Group's acquisition plan and inquired of management about the status of negotiation with the potential vendors and their plans and measures to finance the exercise of these Concession Rights before they expire, with reference to the correspondence between the Group and the respective potential vendors provided by management and the Group's historical experience in project financing; and – evaluated whether the discount rates used for individual projects are within reasonable ranges by considering each individual project's risk profile and the probability of successfully securing the Group's acquisition plan through industry research and historical achievement of the Group's prior acquisition plans. Based on the procedures described above, we considered the methodology used and key assumptions and estimates applied in the impairment assessment of intangible assets are supportable.
Valuation of Call Options Refer to Note 4(d) (critical accounting estimates and assumptions), Notes 16 and 18 of the consolidated financial statements. The Call Options in relation to the acquisition of additional equity interest in investments accounted for using equity method were recognised at fair value on initial recognition and requires subsequent re-measurement at fair value at each period end. Independent external valuations were obtained to support the fair values of the Call Options to be RMB252 million as at 31 December 2016. Related fair value gain recognised in the consolidated statement of profit or loss during the year then ended amounted to RMB131 million.	We assessed the competency, capability and objectivity of the independent external valuer by considering its qualification, relevant experience and relationship with the Group. We involved our internal valuation specialist in our discussion with the external valuer and management to understand the rationale and assess the appropriateness and consistency of the methodology used and the assumptions and estimates applied. Our procedures in relation to management's key assumptions and estimates applied included: – obtained the financial information and cash flow projections of the underlying solar power plants operation and assessed whether the underlying project value attached to the Call Options are within a reasonable range; and

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
The fair values of the Call Options were determined by using binomial model, and various key assumptions and estimates including: – underlying project value attached to the Call Options; and – the Group's ability to exercise the Call Options. We focused on this area because the carrying values of the Call Options are significant to the consolidated financial statements and the calculation and valuation methodology require the use of significant judgements and estimates. These estimations are also subject to uncertainties.	– obtained the Group's acquisition plan and inquired of management about their plans and measures to finance the acquisition upon exercise of the Call Options before they expire, with reference to the Group's historical experience in project financing. Based on the procedures described above, we considered the methodology used and key assumptions and estimates applied in the valuation of the Group's Call Options are supportable.
Valuation of Unlisted Investment Refer to Note 4(d) (critical accounting estimates and assumptions) and Note 18 of the consolidated financial statements. Unlisted Investment was recognised at fair value through profit or loss on initial recognition and requires subsequent re-measurement at fair value at each period end. Independent external valuation was obtained to support the fair value of the Unlisted Investment to be RMB229 million as at 31 December 2016. Related fair value gain recognised in the consolidated statement of profit or loss during the year then ended amounted to RMB212 million. The fair value of the Unlisted Investment was determined by using the DCF approach and various key assumptions and estimates including: – business plan of the investee; – discount rate; – revenue growth rate; and – gross profit margin. We focused on this area because the carrying value of the investment is significant to the consolidated financial statements and the calculation and valuation methodology require the use of significant judgements and estimates. These estimations are also subject to uncertainty.	We assessed the competency, capability and objectivity of the independent external valuer by considering its qualification, relevant experience and relationship with the Group. We involved our internal valuation specialist in our discussion with the external valuer and management to understand the rationale and assess the appropriateness and consistency of the methodology used and the assumptions and estimates applied. Our procedures in relation to management's key assumptions and estimates applied included: – obtained and assessed the business plan of the investee that supports the cash flow projections used in DCF through inquiry of management and obtaining supporting documents including agreements and contracts to corroborate our understanding of the status of each on-going project of the investee; – evaluated the appropriateness of the discount rate by considering the investee's weighted average cost of capital and the risk profile of the investee; and – assessed the appropriateness of the revenue growth rate and gross profit margin based on market research performed on the renewable energy industry in the PRC and historical experience of the investee. Based on the procedures described above, we considered the methodology used and key assumptions and estimates applied in the valuation of the Group's Unlisted Investment are supportable.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Change of estimated economic useful lives of power generating modules and equipment Refer to Note 4(c) (critical accounting estimates and assumptions), Notes 2.8 and 13 of the consolidated financial statements. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each financial year end. As at 31 December 2016, the carrying amount of power generating modules and equipment ("Solar Plants") was RMB9,098 million. The estimated economic useful lives of Solar Plants were previously determined at 25 years based on the output efficiency certificates provided by the suppliers at the time of construction. The Group has an internal policy to engage an independent international technical surveyor to inspect the quality of the Group's Solar Plants once every few years. During the year, management appointed an independent international technical surveyor to perform specific testing on the output efficiency of certain Solar Plants acquired or developed by the Group. Based on the results of the testing, the independent international technical surveyor concluded that the estimated economic useful lives of these Solar Plants are more than 30 years. After taking the above into consideration, making reference to the latest industry and analyst research reports, management has adjusted the estimated economic useful lives of the Solar Plants covered by the above quality inspection from 25 to 30 years since 1 January 2016 on a prospective basis. Such change in accounting estimate has resulted in a decrease of depreciation charge amounting to RMB57 million for the year ended 31 December 2016 and will affect the depreciation charge of the Group in the future years. We focused on this area because the carrying amount of Solar Plants is significant to the consolidated financial statements and the estimations of their economic useful lives require the use of significant judgements and estimates. These estimations are also subject to uncertainty.	We assessed the competency, capability and objectivity of the independent international technical surveyor by considering its qualification, relevant experience and relationship with the Group. We discussed with the independent international technical surveyor to understand the framework and method of their testing on the output efficiency of the selected Solar Plants and read their report to corroborate their conclusion with that of management's assessment. We also evaluated management's assessment of the economic useful lives of the Solar Plants with reference to industry and research reports on the technological advancement of solar cells in the industry. We obtained management's calculations on the depreciation charge for the current year and checked their accuracy by testing the inputs and mathematical calculation based on the latest estimated useful lives. Based on the procedures described above, we considered the judgements and estimates applied on the change of the estimated economic useful lives of Solar Plants are supportable.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chan Kam Chiu, Raymond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Note	2016 RMB'million	2015 RMB'million
Sales of electricity	5	**261**	175
Tariff adjustment	5	**737**	456
		998	631
Other income	6	**65**	2
Employee benefits expenses	7	**(96)**	(70)
Land use tax		**(14)**	(10)
Legal and professional fees		**(14)**	(8)
Maintenance costs		**(38)**	(48)
Other expenses	8	**(60)**	(34)
Sales of solar energy related products		**–**	307
Costs of sales of solar energy related products		**–**	(290)
EBITDA[#]		**841**	480
Acquisition costs arising from business combinations		**(15)**	(5)
Depreciation of property, plant and equipment	13	**(301)**	(242)
Bargain purchase arising from:			
(i) Business combinations; and	28	**91**	204
(ii) Acquisition of investments accounted for using equity method	16	**112**	10
Fair value gains/(losses) on financial assets at fair value through profit or loss relating to:			
(i) Call options issued relating to the acquisition of investments accounted for using equity method;	18	**131**	121
(ii) Guaranteed electricity output; and	18	**220**	(76)
(iii) Unlisted investment	18	**212**	–
Fair value gains on financial liabilities at fair value through profit or loss relating to:			
(i) Contingent consideration payables;	24	**37**	159
(ii) Put option issued in relation to acquisition of investments accounted for using equity method ("Put Option"); and	16(a)	**21**	35
(iii) Subsequent re-measurement on derivative portion of convertible bonds	23	**68**	279
Finance income		**9**	9
Finance costs	9	**(1,066)**	(638)
Share of profits of investments accounted for using equity method	16	**23**	4
Gain on disposal of an associate		**–**	33
Profit before income tax		**383**	373
Income tax expense	10	**(1)**	–
Profit for the year		**382**	373
Profit attributable to:			
– Shareholders of the Company		**367**	361
– Non-controlling interests		**15**	12
		382	373
Earnings per share attributable to shareholders of the Company	12		
– Basic (RMB cents)		**7.63**	7.96
– Diluted (RMB cents)		**6.56**	0.75

EBITDA represents earnings before finance income, finance costs, income tax, depreciation and fair value gains/losses, which also excludes acquisition costs arising from business combinations and share of profits of investments accounted for using equity method. EBITDA is not a measure of performance under Hong Kong Financial Reporting Standards, but is widely used by management for monitoring business performance of a company from operational perspective.

The notes on pages 91 to 166 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 RMB'million	2015 RMB'million
Profit for the year	**382**	373
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
Exchange differences arising on translation of financial statements of subsidiaries	**(169)**	(108)
Total other comprehensive loss for the year, net of tax	**(169)**	(108)
Total comprehensive income for the year	**213**	265
Total comprehensive income for the year attributable to		
– Shareholders of the Company	**198**	253
– Non-controlling interests	**15**	12
	213	265

The notes on pages 91 to 166 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 RMB'million	2015 RMB'million
ASSETS			
Non-current assets			
Property, plant and equipment	13	**9,176**	7,420
Intangible assets	14	**917**	950
Investments accounted for using equity method	16	**515**	305
Other receivables, deposits and prepayments	17	**771**	607
Financial assets at fair value through profit or loss	18	**252**	121
Pledged deposits	20	**1,014**	134
		12,645	9,537
Current assets			
Inventories		**–**	1
Financial assets at fair value through profit or loss	18	**340**	–
Other receivables, deposits and prepayments	17	**754**	1,050
Trade, bills and tariff adjustment receivables	19	**1,418**	1,228
Pledged deposits	20	**987**	–
Restricted cash	20	**41**	206
Cash and cash equivalents	20	**996**	947
		4,536	3,432
Total assets		**17,181**	12,969
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	21	**402**	386
Reserves		**2,092**	1,739
		2,494	2,125
Non-controlling interests		**114**	105
Total equity		**2,608**	2,230

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 RMB'million	2015 RMB'million
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	22	**5,982**	4,305
Convertible bonds	23	**3,154**	1,987
Contingent consideration payables	24	**–**	581
Cash-settled share-based payment	21(c)	**–**	24
Deferred government grant		**2**	4
Deferred tax liabilities	25	**305**	282
		9,443	7,183
Current liabilities			
Trade payables		**–**	90
Other payables and accruals	26	**978**	1,817
Bank and other borrowings	22	**4,152**	704
Convertible bonds	23	**–**	924
Other financial liability at fair value through profit or loss	16(a)	**–**	21
		5,130	3,556
Total liabilities		**14,573**	10,739
Total equity and liabilities		**17,181**	12,969

The notes on pages 91 to 166 are an integral part of these consolidated financial statements.

Mr. Li, Alan
Director

Mr. Li Hong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to the shareholders of the Company											
	Share capital RMB'million	Share premium RMB'million	Share-based payment reserve RMB'million	Shares held under equity incentive scheme ("EIS") RMB'million	Convertible bonds equity reserve RMB'million	Translation reserve RMB'million	Other reserve (Note 21(d)) RMB'million	Statutory reserve (Note 21(e)) RMB'million	Accumulated losses RMB'million	Total RMB'million	Non-controlling interests RMB'million	Total equity RMB'million
Balance at 1 January 2015	355	4,235	100	(54)	108	(50)	–	–	(3,255)	1,439	45	1,484
Comprehensive income												
Profit for the year	–	–	–	–	–	–	–	–	361	361	12	373
Other comprehensive loss	–	–	–	–	–	(108)	–	–	–	(108)	–	(108)
Total comprehensive (loss)/income	–	–	–	–	–	(108)	–	–	361	253	12	265
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(17)	(17)
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	–	–	–	65	65
Issue of shares through placement	30	270	–	–	–	–	–	–	–	300	–	300
Issue of convertible bonds	–	–	–	–	114	–	–	–	–	114	–	114
Share-based payment	–	–	19	–	–	–	–	–	–	19	–	19
Transaction with non-controlling interests	1	6	–	–	–	–	(7)	–	–	–	–	–
Transfer to statutory reserve	–	–	–	–	–	–	–	51	(51)	–	–	–
Total transactions with owners, recognised directly in equity	31	276	19	–	114	–	(7)	51	(51)	433	48	481
Balance at 31 December 2015	386	4,511	119	(54)	222	(158)	(7)	51	(2,945)	2,125	105	2,230
Balance at 1 January 2016	**386**	**4,511**	**119**	**(54)**	**222**	**(158)**	**(7)**	**51**	**(2,945)**	**2,125**	**105**	**2,230**
Comprehensive income												
Profit for the year	–	–	–	–	–	–	–	–	**367**	**367**	**15**	**382**
Other comprehensive loss	–	–	–	–	–	**(169)**	–	–	–	**(169)**	–	**(169)**
Total comprehensive (loss)/income	–	–	–	–	–	**(169)**	–	–	**367**	**198**	**15**	**213**
Non-controlling interests arising from business combination (Note 28)	–	–	–	–	–	–	–	–	–	–	**34**	**34**
Issue of shares through placement (Note 21(a))	**9**	**44**	–	–	–	–	–	–	–	**53**	–	**53**
Issue of shares on conversion of convertible bonds (Note 23)	**7**	**44**	**24**	**(19)**	**(2)**	–	–	–	–	**54**	–	**54**
Reclassification from contingent consideration payables to convertible bonds (Note 24)	–	–	–	–	**37**	–	–	–	–	**37**	–	**37**
Share-based payment (Note 21(b))	–	–	**7**	–	–	–	–	–	–	**7**	–	**7**
Transaction with a non-controlling interest (Note 15(c))	–	**3**	–	–	–	–	**17**	–	–	**20**	**(40)**	**(20)**
Transfer to statutory reserve	–	–	–	–	–	–	–	**38**	**(38)**	–	–	–
Total transactions with owners, recognised directly in equity	**16**	**91**	**31**	**(19)**	**35**	–	**17**	**38**	**(38)**	**171**	**(6)**	**165**
Balance at 31 December 2016	**402**	**4,602**	**150**	**(73)**	**257**	**(327)**	**10**	**89**	**(2,616)**	**2,494**	**114**	**2,608**

The notes on pages 91 to 166 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'million	2015 RMB'million
Cash flows from operating activities	27	**327**	112
Cash flow from investing activities			
Acquisition of investments accounted under equity method	16	**(108)**	(32)
Acquisitions of subsidiaries, net of cash acquired	28	**(152)**	(545)
Deposits paid for investments		**(187)**	(75)
Amounts due from associates		**11**	(284)
Amount due from a joint venture		**(20)**	–
Interests received		**5**	7
Net proceeds from disposal of an associate		**–**	67
Proceeds from government grant		**3**	2
Refund/(payment) of advance payment with related interest	17(b)	**448**	(424)
Capital expenditure		**(2,060)**	(1,954)
Acquisition of additional interests in subsidiaries	15(c)	**(20)**	–
Net proceeds from disposal of assets held-for-sale		**–**	70
Net cash used in investing activities		**(2,080)**	(3,168)
Cash flow from financing activities			
Interests paid		**(511)**	(233)
Increase in pledged deposits		**(1,851)**	(3)
Decrease/(increase) in restricted cash		**165**	(186)
Net proceeds from issue of convertible bonds	23	**297**	1,941
Redemption of convertible bonds	23	**(1,064)**	–
Net proceeds from bank borrowings		**5,276**	1,402
Repayment of bank borrowings		**(1,091)**	(132)
Net proceeds from loans from leasing companies		**1,048**	580
Repayment of loans from leasing companies		**(638)**	(23)
Net proceeds from medium-term notes	22(c)	**96**	63
Net proceeds from placing of new shares	21(a)	**53**	300
Net proceeds from loans from a third party		**45**	–
Repayment of loans from a third party		**–**	(10)
Net cash generated from financing activities		**1,825**	3,699
Net increase in cash and cash equivalents		**72**	643
Cash and cash equivalents at beginning of year		**947**	213
Effect of foreign exchange rate changes		**(23)**	91
Cash and cash equivalents at end of year	20	**996**	947

The notes on pages 91 to 166 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1 GENERAL INFORMATION

United Photovoltaics Group Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the development, investment, operation and management of solar power plants.

The Company is an exempted limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda. The principal place of business in Hong Kong is Unit 1012, 10/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The ordinary shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and derivatives of convertible bonds, which were carried at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Going concern

As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB594 million. Included in its current liabilities were bank and other borrowings totalling approximately RMB4,152 million that are scheduled to be repayable within a year from 31 December 2016. As at the same date, the Group had unused uncommitted facilities of RMB659 million, which will be expired after 31 December 2017.

As at 31 December 2016, the Group had paid RMB293 million as deposits for proposed acquisitions of solar power plants with an aggregate installed capacity of 519.69MW pursuant to the terms of the conditional sale and purchase agreements or framework agreements (Note 17(a)). Should these potential acquisitions be completed, the Group would have to contribute additional capital to finance the settlement of its Engineering, Procurement and Construction ("EPC") payables and other payables, which is estimated to be approximately RMB4,274 million.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

Subsequent to 31 December 2016 and up to the date of approval of the consolidated financial statements, the Group completed two of the abovementioned proposed acquisitions of solar power plants with an aggregate installed capacity of 99.69MW. The Group has assumed their EPC payables, other payables and borrowings, together with the required consideration amounts, totalling approximately RMB1,017 million (Note 31(b)). In addition, in February 2017, the Group entered into EPC contracts with contractors with an estimated capital expenditure amounting to RMB369 million for its self-constructed solar power plant in Datong County, Shanxi Province, the People's Republic of China (the "PRC") with an installed capacity of 50MW (Note 31(c)).

In June 2013, the Group acquired certain concession rights to develop and operate various solar power plant projects. The Group intends to exercise these concession rights and acquire the relevant solar power plant projects from the respective vendors before these rights expire in 2017 and 2018. The Group would require additional financing for these future acquisitions and the required amount is yet to be determined, as it is subject to the negotiation of the final consideration with the relevant vendors, as well as the negotiation of the amount of liabilities of the acquirees to be assumed by the Group upon completion of the acquisitions.

The above matters indicated that the Group will need to secure a substantial amount of funds in the foreseeable future to finance these financial obligations and capital expenditures under various contractual and other arrangements. All the above conditions indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from 31 December 2016. The directors are of the opinion that, taking into account the following plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2016:

(i) Subsequent to 31 December 2016, the Group has successfully obtained short-term bank loans of RMB230 million and long-term bank loans of RMB1,280 million. The Group also had successfully issued medium-term notes of HK$36 million (equivalent to RMB32 million).

(ii) In January and February 2017, the Group has successfully issued an aggregate of US$350 million 8.25% senior notes due 2020 ("Senior Notes"). The aggregate net proceeds of US$341.2 million (equivalent to RMB2,268 million) from the issuance of Senior Notes will be used mainly for the redemption of the existing convertible bonds issued by the Company which are originally due in 2018 and 2019, repayment of certain existing indebtedness and working capital purposes (Note 31(a)).

(iii) In March 2017, the Company completed the allotment and issue of 2,232,978,962 subscription shares at the share subscription price of HK$0.5814 per subscription share and 871,075,858 warrants at the warrant issue price of HK$0.000775 per warrant ("Share and Warrant Subscriptions") respectively. The net proceeds from the Share and Warrant Subscriptions amounted to approximately HK$1,259 million (equivalent to approximately RMB1,119 million) (Note 31(d)).

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Going concern (Continued)

(iv) China Merchants New Energy Group Limited ("CMNEG"), a shareholder of the Company and an indirect 79.36% owned subsidiary of China Merchants Group, had issued a letter to the Group and agreed to provide financial support to the Group for a period up to 31 August 2018 to enable the Group to meet its liabilities and obligations (including capital expenditures and operating expenses) as and when they fall due and to carry on its business without a significant curtailment of operations.

(v) The Group is pursuing the opportunities to issue the medium-term notes and long-term corporate bonds in the PRC. The directors are confident that the Group could successfully issue the medium-term notes and long-term corporate bonds.

(vi) The Group is also in the process of negotiating long-term borrowings from banks or other financial institutions to finance the settlement of its existing financial obligations and capital expenditures. In addition, should the proposed acquisitions be completed, the Group will try to negotiate long-term borrowings from banks or other financial institutions to finance the settlement of EPC payables and other payables of these newly acquirees. Based on the past experience of the Group, the directors are confident that they will be able to obtain such long-term borrowings from banks and other financial institutions.

(vii) The solar power plants currently held and planned to be acquired by the Group have already achieved on-grid connection. They are expected to generate operating cash inflows to the Group. The directors are confident that all existing solar power plants currently held by the Group, if not registered in the previous Renewable Energy Tariff Subsidy Catalogue ("Catalogue"), are eligible for the registration onto the Catalogue and the tariff adjustment receivables in relation to the Group's solar power plants included in the sixth batch Catalogue will be received in 2017 (Note 19).

In the opinion of the directors, in light of the above plans and measures, the Group will have sufficient working capital to fulfil its financial obligations as and when they fall due in the coming twelve months from 31 December 2016. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainty exists as to whether management of the Group can achieve the plans and measures described in (iv) to (vii) above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to obtain the financial support from CMNEG as needed, successfully issue medium-term notes and long-term corporate bonds in the PRC, secure various sources of short-term or long-term financing as and when required, and to generate adequate operating cash inflows from its existing solar power plants and other plants to be acquired or constructed in the expected timeframe.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016.

Annual Improvements Project	Annual Improvements 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 Amendment	Investment Entities: Applying the Consolidation Exception
HKFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 Amendment	Disclosure Initiative
HKAS 16 and HKAS 38 Amendment	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 27 Amendment	Equity Method in Separate Financial Statements

Those standards, amendments and interpretations which were effective for the financial year beginning on 1 January 2016 do not have a material effect on the Group's financial statements.

(b) New standards, amendments to standards and interpretation that have been issued but were not yet effective

The following new/revised standards, amendments and interpretations have been issued but were not yet effective for the financial year beginning on 1 January 2016 and have not been adopted early by the Group:

Effective for accounting periods beginning on or after 1 January 2017

HKAS 7 Amendment	Disclosure Initiative
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses

Effective for accounting periods beginning on or after 1 January 2018

HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments to standards and interpretation that have been issued but were not yet effective (Continued)

Effective for accounting periods beginning on or after 1 January 2019

HKFRS 16	Lease

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

HKFRS 10 and HKAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group has already commenced an assessment of the impact of adopting the above new standards and interpretations, amendments and revision to existing standards and interpretation to the Group. The Group is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the consolidated financial statements will be resulted.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any assets or liabilities resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combination (Continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statement of profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in the consolidated statement of profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.2 Separate financial statements

Investments in subsidiaries and associates are accounted for at cost less impairment. Cost includes direct attributable costs of investment. Cost also includes capital contribution relating to EIS for investments in subsidiaries. The results of subsidiaries and associates are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries and associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profits of associates" in the consolidated statement of profit or loss.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of profit or loss.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is HK$ and the consolidated financial statements are presented in RMB which is the Group's presentation currency.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss within "finance costs". All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expense for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expense are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.7 Land use rights

Land use rights are located in the PRC and they are classified as operating leases. All land use rights are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is provided to write off cost of land use rights on a straight-line basis over the respective lease period.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Leasehold improvements	Over the unexpired periods of the leases or their expected useful lives of 3 years, whichever is shorter
Power generating modules and equipment	25 – 30 years
Plant and machinery	5 years
Furniture, fixtures and office equipment	3 – 5 years
Motor vehicles	5 years

Construction in-progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings and the costs of plant and machinery. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for the intended use. When the assets concerned are brought into use, the costs are transferred to other property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of profit or loss.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets

Intangible assets comprise concession rights which represent rights to develop, acquire and operate certain solar power plants. Concession rights acquired in a business combination are initially recognised at fair value. The concession rights will be redesignated to property, plant and equipment when the relevant solar power plants are developed, acquired or operated by the Group. Concession rights are subsequently carried at cost less accumulated impairment losses, if any.

2.10 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets and liabilities

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The Group's financial liabilities are classified as financial liability at fair value through profit or loss or financial liabilities at amortised cost. The classification depends on the purpose for which the financial assets and financial liabilities are acquired. Management determines the classification of its financial assets and financial liabilities at initial recognition.

(a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial assets and financial liabilities held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Balances in this category are classified as current if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

(c) Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets and liabilities (Continued)

2.11.2Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair values. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss when the Group's right to receive payments is established.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.13 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for electricity sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time (generally over 6 months) 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 the consolidated statement of profit or loss in the period in which they are incurred.

2.20 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in convertible bonds equity reserves. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method.

The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Compound financial instruments issued by the Group also comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued may vary.

The liability component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of all derivatives. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. Derivatives are carried at fair value subsequently, with changes in fair value presented to the consolidated statement of profit or loss in the period in which they arise.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the date of statement of financial position in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Employee benefits

(a) Pension obligations

Employees of the Group in Hong Kong are required to participate in a defined contribution scheme as defined in mandatory provident fund scheme ("MPF Scheme"). The assets of the MPF Scheme are held separately from those of the Group under independently administered funds. Contributions to the schemes by the employers and employees are calculated as a percentage of employees' basic salaries. Under the MPF Scheme, each of the company (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employees are subject to a cap of HK$1,500 and thereafter contributions are voluntary. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

Employees of the Group in the PRC are required to participate in defined contribution retirement schemes administered and operated by municipal governments. The Group's subsidiaries in the PRC contribute funds to the retirement scheme to fund the retirement benefits of the employees which are calculated on certain percentage of the average employee salary as agreed by the municipal government. Such retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

(b) Employee leaves entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of statement of financial position. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options, shares and convertible bonds) of the Group. The fair value of the employee services received in exchange for the grant of the options, shares and convertible bonds is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

After vesting, when the share options are forfeited prior to the expiry date, the amount previously recognised in the "Share-based payment reserve" will be transferred to the "Accumulated losses" within the consolidated statement of changes in equity.

At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) Share-based payment transactions among group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of electricity

Revenue arising from the sale of electricity is recognised in the accounting period when electricity is generated and transmitted.

(b) Tariff adjustment

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

(c) Sales of goods – solar energy related products

Revenue from sale of solar energy related products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of profit or loss on a straight- line basis over the expected lives of the related assets.

2.28 Related party transactions

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Related party transactions (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) the entity is controlled or jointly controlled by a person identified in (a) above.

(vii) a person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the Group or is a member of the key management personnel of the Group (or of a parent of the Group).

2.29 Financial guarantee contracts

Financial guarantee contracts are contracts that require 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. Such financial guarantees are given to banks on behalf of subsidiaries to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee issued at the time of issuance is determined by reference to fees charged in an arm's length transactions for a similar services. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. Any increase in the liability relating to guarantees is reported in the consolidated statement of profit or loss.

Where guarantees in relation to loans of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Company under policies approved by the Board of Directors of the Company.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and the PRC. The functional currency of Hong Kong reporting entities is HK$ and the transactions are mostly denominated in HK$ and United States dollar ("US$"). For transactions or balances denominated in US$ are reasonably stable with the Hong Kong dollars under the Linked Exchange Rate System, the directors are of the opinion that the Company does not have significant foreign exchange risk. Accordingly, no sensitivity analysis is performed. The functional currency of the PRC reporting entities is RMB and the transactions are mostly denominated in RMB and HK$, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The Group is exposed to foreign exchange risk primarily through financing, capital expenditure and expenses transactions that are denominated in a currency other than RMB, which are the functional currencies of the major subsidiaries of the Group. The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently not using any forward exchange contract to hedge against foreign exchange risk as management considers its exposure is not significant.

At 31 December 2016, if HK$ had strengthened/weakened by 5% (2015: 5%) against RMB with all other variables held constant, profit for the year would have been approximately RMB0.2 million higher/lower (2015: RMB1.5 million higher/lower) mainly as a result of net foreign exchange impact on transaction of HK$ denominated deposits in banks.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and interest rate risk

The Group's interest rate risk mainly arises from interest-bearing borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the year.

Except for the cash held at bank, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate any significant impact resulting from changes in interest-bearing assets.

At 31 December 2016, if interest rates on bank and other borrowings had been 50 basis points (2015: 50 basis points) higher/lower with all other variables held constant, profit for the year would have been approximately RMB34 million lower/higher (2015: RMB23 million lower/higher) mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. The credit risk of the Group mainly arises from trade and other receivable and deposits with banks and financial institutions.

As at 31 December 2016, the Group has concentration of credit risk as 60% (2015: 73%) of its trade and tariff adjustment receivables were due from two largest customers (2015: two), which were mainly state-owned enterprises. Considering the track record of regular repayment of trade receivables and based on the Group's experience with respect to the collection of tariff adjustment receivables, which is well supported by the government policy, the directors are of the opinion that the risk of default by these customers is not significant.

The Group believes that adequate provision for doubtful debts has been made in the consolidated financial statements. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The Group has policies that limit the amount of credit exposure to any financial institutions. Substantially all the deposits in banks are held in reputable financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality and management does not expect any losses arising from non-performance by these counterparties.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Cash flow forecasts are prepared by management. Management monitors rolling forecasts on the Group's liquidity requirements to ensure the Group maintains sufficient liquidity reserve to support sustainability and growth of the Group's business. Currently, the Group finances its working capital requirements through funds generated from operations, issue of new shares, Senior Notes, bank and other borrowings and convertible bonds.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'million	Between 1 year to 2 years RMB'million	Between 2 to 5 years RMB'million	Over 5 years RMB'million	Total RMB'million
At 31 December 2016					
Other payables and accruals	**978**	**–**	**–**	**–**	**978**
Bank and other borrowings and corresponding interests	**4,685**	**1,959**	**2,691**	**2,709**	**12,044**
Convertible bonds and corresponding interests	**175**	**3,548**	**398**	**–**	**4,121**
	5,838	**5,507**	**3,089**	**2,709**	**17,143**
At 31 December 2015					
Trade payables	90	–	–	–	90
Other payables and accruals	1,817	–	–	–	1,817
Bank and other borrowings and corresponding interests	904	1,045	1,759	2,478	6,186
Convertible bonds and corresponding interests	1,250	145	2,720	–	4,115
	4,061	1,190	4,479	2,478	12,208

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic condition. In order to maintain or adjust the capital structure, the Group may obtain bank and other borrowings, issue of convertible bonds, issue of Senior Notes or placing of new shares.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current bank and other borrowings, construction costs payable and convertible bonds as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debts.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 RMB'million	2015 RMB'million
Bank and other borrowings	**10,134**	5,009
Construction costs payable	**563**	1,442
Convertible bonds	**3,154**	2,911
	13,851	9,362
Less: Cash and cash equivalents	**(996)**	(947)
Net debts	**12,855**	8,415
Total equity	**2,608**	2,230
Total capital	**15,463**	10,645
Gearing ratio	**83.1%**	79.1%

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair values, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the fair value hierarchy of the Group's financial assets and liabilities that were measured at fair value at 31 December 2016 and 2015.

	Level 3	
	2016 RMB'million	2015 RMB'million
Assets		
Financial assets at fair value through profit and loss		
– Call option issued relating to the acquisition of investments accounted for using equity method (Note 18)		
– Associates ("Asso Call Option")	**87**	121
– Joint venture ("JV Call Option")	**165**	–
– Guaranteed electricity output (Note 18)	**111**	–
– Unlisted investment (Note 18)	**229**	–
Liabilities		
Contingent consideration payables	**–**	581
Other financial liabilities derivatives:		
– Put Option	**–**	21
– Derivative portion of convertible bonds (Note 23)	**86**	108

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Guaranteed electricity output was estimated based on the shortfall of electricity pursuant to sale and purchase agreements mutually agreed between the relevant parties.
- See relevant disclosures on fair valuation of Asso Call Option (Note 18), JV Call Option (Note 18), unlisted investment (Note 18) and derivative portion of the convertible bonds (Note 23).

There were no significant transfers of financial assets or liabilities between level 1, level 2 and level 3 fair value hierarchy classifications.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Financial assets at fair value through profit or loss				Financial liabilities at fair value through profit or loss		
	Asso Call Option RMB'million	JV Call Option RMB'million	Guaranteed electricity output RMB'million	Unlisted investment RMB'million	Derivative portion of convertible bonds RMB'million	Put Option RMB'million	Contingent consideration payables RMB'million
Opening balance	121	–	–	–	(108)	(21)	(581)
Issuance of convertible bonds	–	–	–	–	(41)	–	–
Initial recognition of JV Call Option in the consolidated statement of profit or loss	–	159	–	–	–	–	–
Reclassify from investments in associates	–	–	–	17	–	–	–
Reclassify to convertible bonds and convertible bonds equity reserve	–	–	–	–	–	–	525
Fair value gains/(losses) recognised in the consolidated statement of profit or loss	(34)	6	220	212	68	21	37
Settlements	–	–	(122)	–	–	–	–
Value-added tax	–	–	13	–	–	–	–
Exchange difference	–	–	–	–	(5)	–	19
Closing balance	87	165	111	229	(86)	–	–
Total gains/(losses) for the year included in the consolidated statement of profit or loss for assets held/liabilities assumed at the end of the year	(34)	165	220	212	68	21	37
Change in unrealised gains/(losses) for the year included in the consolidated statement of profit or loss at the end of the year	(34)	165	111	212	68	21	37

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

	Financial assets at fair value through profit or loss		Financial liabilities at fair value through profit or loss		
	Asso Call Option RMB'million	Guaranteed electricity output RMB'million	Derivative portion of convertible bonds RMB'million	Put Option RMB'million	Contingent consideration payables RMB'million
Opening balance	–	76	(43)	(56)	(697)
Issuance of convertible bonds	–	–	(331)	–	–
Initial recognition of Asso Call Option in the consolidated statement of profit or loss	111	–	–	–	–
Fair value gain/(loss) recognised in the consolidated statement of profit or loss	10	(76)	279	35	159
Exchange difference	–	–	(13)	–	(43)
Closing balance	121	–	(108)	(21)	(581)
Total gains/(losses) for the year included in the consolidated statement of profit or loss for assets held/liabilities assumed at the end of the year	121	(76)	279	35	159
Change in unrealised gains/(losses) for the year included in the consolidated statement of profit or loss at the end of the year	121	(76)	279	35	159

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

Sensitivity analysis of observable and unobservable inputs

As described, the fair values of financial assets and liabilities that are classified in level 3 of the fair value hierarchy are determined using valuation techniques that make use of significant inputs that are not based on observable market data. These fair values could be sensitive to changes in the assumptions used to derive the inputs. Volatility is the main significant unobservable input. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

Description	Fair value at 31 December		Valuation techniques	Significant inputs	Range of inputs	Favourable/(unfavourable) changes in profit or loss	
	2016 RMB'million	2015 RMB'million				**2016 RMB'million**	2015 RMB'million
Financial assets at fair value through profit or loss							
– Asso Call Option	**87**	121	Binomial model	Volatility	+5%	**9**	11
					-5%	**(9)**	(11)
– JV Call Option	**165**	–	Binomial model	Volatility	+5%	**3**	–
					-5%	**(3)**	–
Financial liabilities at fair value through profit or loss							
– Derivative portion of convertible bonds	**(86)**	(108)	Binomial model	Volatility	+5%	**(16)**	(22)
					-5%	**15**	24
				Share price	+HK$0.10	**(68)**	(42)
					– HK$0.10	**48**	36
– Put Option	**–**	(21)	Binomial model	Volatility	+5%	**–**	(2)
					-5%	**–**	1
				Share price	+HK$0.10	**–**	(1)
					– HK$0.10	**–**	1
– Contingent consideration payables	**–**	(581)	Binomial model	Volatility	+5%	**–**	(2)
					-5%	**–**	11
				Share price	+HK$0.10	**–**	(34)
					– HK$0.10	**–**	37

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

Sensitivity analysis of observable and unobservable inputs (Continued)

Except for the liability component of the convertible bonds which are carried at amortised cost, the carrying amounts of all financial assets and financial liabilities of the Group approximated their fair values as at 31 December 2016 (2015: same).

	2016		2015	
	Carrying value RMB'million	**Fair value RMB'million**	Carrying value RMB'million	Fair value RMB'million
Financial Liabilities				
Convertible bonds carried at amortised cost	**3,068**	**3,568**	2,803	3,053

The fair values of the liability portion of the convertible bonds carried at amortised cost were within level 3 of the fair value hierarchy and were determined by discounted cash flow using the inputs including contractual cash flows over the remaining contractual terms of the convertible bonds and discount rate that reflects the credit risk of the Company.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Purchase accounting

Accounting for acquisitions require the Group to allocate the cost of acquisition to specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The Group has undertaken processes to identify all assets and liabilities acquired, including acquired intangible assets. Judgements made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset's useful lives, could materially impact the calculation of goodwill and depreciation and amortisation charges in subsequent periods. Estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management. Determining the estimated useful lives of tangible and intangible assets acquired also requires judgement.

Notes to the Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(b) Impairment of property, plant and equipment, intangible assets and investments accounted for using equity method

The Group conducts reviews for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on the higher of value-in-use calculations or fair value less costs of disposal. These calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations.

(c) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

During the year, the Group has reassessed the useful lives of certain assets within power generating modules and equipment with the assistance of an international surveyor from 25 years to 30 years. Such change in accounting estimate has been applied prospectively from 1 January 2016 onwards. As a result, depreciation charge for the year ended 31 December 2016 and the net book value of property, plant and equipment as at 31 December 2016 has been decreased and increased by approximately RMB57 million respectively.

(d) Fair value of other financial instruments

The fair value of financial assets at fair value through profit or loss, financial liability at fair value through profit or loss and derivatives in relation to convertible bonds was determined by using various valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions, including the discount rates and fair value of the Company's shares, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

Notes to the Financial Statements

5 SEGMENT INFORMATION

The Chief Operation Decision-Maker ("CODM") has been identified as the Board of Directors of the Company. CODM reviews the Group's internal reports in order to assess performance, allocate resources and determine the operating segments.

The Group has one single reportable segment, which is principally engaged in the development, investment, operation and management of solar power plants.

For the year ended 31 December 2016, the major operating entities of the Group are domiciled in the PRC and accordingly, all of the Group's revenue was derived in the PRC (2015: Same).

The geographical analysis of the Group's non-current assets (excluding deposits for investments, pledged deposits relating to borrowings, value-added tax recoverable and financial assets at fair value through profit or loss) is as follows:

	2016 RMB'million	2015 RMB'million
The PRC	**10,619**	8,733
Hong Kong	**1**	1
	10,620	8,734

For the year ended 31 December 2016, there were two customers (2015: four) which individually contributed over 10% of the Group's total revenue. During the year, the revenue contributed from each of these customers was as follows:

	2016 RMB'million	2015 RMB'million
– Customer A	**283**	195
– Customer B	**268**	265
– Customer C	**–**	204
– Customer D	**–**	103

6 OTHER INCOME

	2016 RMB'million	2015 RMB'million
Compensation interest income in respect of a terminated acquisition in 2015 (Note 17(b))	**24**	–
Compensation income (Note (a))	**21**	–
Government grant	**5**	2
Consultancy fee income	**13**	–
Others	**2**	–
	65	2

(a) The amount represents the compensation income from an EPC supplier, who did not fulfil certain requirements in construction of solar power plant under an EPC contract.

Notes to the Financial Statements

7 EMPLOYEE BENEFITS EXPENSES

(a) Employee benefits expenses (including Directors' emoluments)

	2016 RMB'million	2015 RMB'million
Salaries, wages and bonuses	**83**	42
Contributions to retirement contribution plan	**6**	3
Share-based payment expenses (Note 21(b) & (c))	**7**	25
	96	70

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, three (2015: two) were directors of the Company, whose emoluments are included in the disclosure set out in Note 7(c) below. The emolument of the remaining two (2015: three) highest paid individual is as follows:

	2016 RMB'million	2015 RMB'million
Salaries	**2.19**	3.84
Retirement benefit scheme contributions	**0.02**	0.02
Share-based payment expenses	**0.30**	2.39
	2.51	6.25

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
HK$1,000,001 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,500,001 – HK$4,000,000	**–**	1

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(c) Directors' emoluments

The emoluments paid or payable to each director were as follows:

For the year ended 31 December 2016

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	Fees RMB'million	Salaries RMB'million	Discretionary bonuses RMB'million	Retirement benefit scheme contributions RMB'million	Share-based payment expenses RMB'million	RMB'million	Total RMB'million
Executive director:							
Mr. Li, Alan	0.17	2.49	–	0.02	0.83	–	3.51
Mr. Lu Zhenwei (i)	–	–	–	–	0.46	–	0.46
Ms. Qiu Ping, Maggie (ii)	0.17	1.48	1.35	0.02	0.55	–	3.57
Mr. Li Hong (iii)	0.17	1.48	1.27	0.02	0.41	–	3.35
Non-executive director:							
Academician Yao Jiannian	0.17	–	–	–	0.37	–	0.54
Mr. Tang Wenyong (i) (iv)	–	–	–	–	0.09	–	0.09
Independent non-executive director:							
Mr. Kwan Kai Cheong	0.17	–	–	–	0.28	–	0.45
Mr. Yen Yuen Ho, Tony	0.17	–	–	–	0.28	–	0.45
Mr. Shi Dinghuan	0.17	–	–	–	0.28	–	0.45
Mr. Ma Kwong Wing	0.17	–	–	–	0.28	–	0.45
Total	1.36	5.45	2.62	0.06	3.83	–	13.32

Notes to the Financial Statements

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(c) Directors' emoluments (Continued)

For the year ended 31 December 2015

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	Fees RMB'million	Salaries RMB'million	Discretionary bonuses RMB'million	Retirement benefit scheme contributions RMB'million	Share-based payment expenses RMB'million	RMB'million	Total RMB'million
Executive director:							
Mr. Li, Alan	0.16	1.93	–	0.02	2.72	–	4.83
Mr. Lu Zhenwei (i)	–	–	–	–	–	–	–
Ms. Qiu Ping, Maggie (ii)	0.05	0.33	–	–	0.40	–	0.78
Mr. Li Hong (iii)	0.05	0.33	–	–	0.33	–	0.71
Non-executive director:							
Academician Yao Jiannian	0.16	–	–	–	–	–	0.16
Mr. Tang Wenyong (i) (iv)	–	–	–	–	–	–	–
Mr. Yang Baiqian (v)	–	–	–	–	–	–	–
Ms. Qiu Ping, Maggie (ii)	0.11	0.63	1.21	0.01	0.80	–	2.76
Independent non-executive director:							
Mr. Kwan Kai Cheong	0.16	–	–	–	–	–	0.16
Mr. Yen Yuen Ho, Tony	0.16	–	–	–	–	–	0.16
Mr. Shi Dinghuan	0.16	–	–	–	–	–	0.16
Mr. Ma Kwong Wing	0.16	–	–	–	–	–	0.16
Total	1.17	3.22	1.21	0.03	4.25	–	9.88

Notes to the Financial Statements

7 EMPLOYEE BENEFITS EXPENSES (CONTINUED)

(c) Directors' emoluments (Continued)

Notes:

(i) Agreed to waive their entitlement to director's fee for the year ended 31 December 2016 (2015: Same)

(ii) Re-designated as an executive director on 28 August 2015

(iii) Appointed on 28 August 2015

(iv) Appointed on 24 December 2015

(v) Agreed to waive his entitlement to director's fee from 1 January 2015 to 24 December 2015 (date of resignation)

(vi) None of the directors received remunerations in respect of accepting office as directors (2015: Same).

(d) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking (2015: Nil).

(e) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2015: Nil).

(f) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2015: Nil).

(g) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2015: Nil).

(h) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

Notes to the Financial Statements

8 OTHER EXPENSES

Other expenses comprise the following items:

	2016 RMB'million	2015 RMB'million
Auditor's remuneration	**3**	2
Foreign exchange differences	**(1)**	4
Operating lease rental	**9**	6
Business hospitality	**16**	11
Water and electricity	**7**	1
Insurance	**3**	1
Stamp duties	**4**	2
Others	**19**	7
	60	34

9 FINANCE COSTS

	2016 RMB'million	2015 RMB'million
In relation to bank and other borrowings:		
– Loan facilities fees	**100**	26
– Interest expenses	**326**	196
In relation to convertible bonds (Note 23):		
– Day 1 fair value loss on issue of convertible bonds	**–**	50
– Interest accretion	**640**	366
	1,066	638

Notes to the Financial Statements

10 INCOME TAX EXPENSE

The Group's operations in the PRC are subject to the corporate income tax law of the PRC (the "PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. During the year, 20 subsidiaries of the Group which are engaging in the development, investment, operation and management of solar power plants have obtained the relevant preferential tax concession. They are fully exempted from the PRC corporate income tax for the first three years, followed by a 50% tax exemption for the next three years.

Except two project companies subject to 12.5% PRC corporate tax rate, the applicable tax rate for remaining subsidiaries during the year was 0% (2015: 0%).

The income tax expense in the consolidated statement of profit or loss represented:

	2016 RMB'million	2015 RMB'million
Current income tax	**1**	–
Deferred income tax	**–**	–
	1	–

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the PRC corporate income tax rate as follows:

	2016 RMB'million	2015 RMB'million
Profit before income tax	**383**	373
Less: Share of profits of investments accounted for using equity method, net of income tax	**(23)**	(4)
	360	369
Calculated at a tax rate of 25% (2015: 25%)	**90**	92
Effect of different tax rates of subsidiaries operating in other jurisdictions	**51**	8
PRC tax concession	**(103)**	(51)
Expenses not deductible for tax purposes	**175**	76
Income not subject to tax	**(225)**	(131)
Tax loss for which no deferred income tax amount was recognised	**16**	6
Utilisation of previously unrecognised tax loss	**(3)**	–
Income tax expense	**1**	–

Notes to the Financial Statements

11 DIVIDEND

No dividend has been paid or declared by the Company during the year ended 31 December 2016 (2015: Same).

12 EARNINGS PER SHARE

(a) Basic

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

	2016	2015
Profit attributable to shareholders of the Company (RMB'million)	**367**	361
Weighted average number of ordinary shares in issue (million shares)	**4,808**	4,533
Basic earnings per share (RMB cents)	**7.63**	7.96

(b) Diluted

Diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion/exercise of all dilutive potential ordinary shares. For the year ended 31 December 2016, the Group has four (2015: five) categories of dilutive potential ordinary shares: convertible bonds (Note 23), share option (Note 21(b)), Put Option (Note 16) and contingent consideration payables (Note 24) (2015: convertible bonds, share option, EIS, Put Option and contingent consideration payables).

The convertible bonds and contingent consideration payables were assumed to have been converted into ordinary shares, and the net profit has been adjusted to eliminate the interest accretion and fair value change less the tax effect. For the share option, a calculation has been done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share option. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share option.

The Put Option was assumed to have been exercised by the holder and to be settled by way of issue of the Company's shares. The net profit has been adjusted to eliminate the fair value change less the tax effect and to additionally share the results of investments accounted for using equity method.

Notes to the Financial Statements

12 EARNINGS PER SHARE (CONTINUED)

(b) Diluted (Continued)

	2016	2015
Earnings (RMB'million)		
Profit attributable to shareholders of the Company	**367**	361
Assumed conversion/exercise of certain convertible bonds, contingent consideration payables and Put Option (2015: certain convertible bonds, contingent consideration payables, Put Option and EIS)		
Adjustments for:		
Certain convertible bonds		
– Interest accretion	**68**	102
– Subsequent remeasurement gains	**(3)**	(236)
Contingent consideration payables		
– Fair value gain	**(37)**	(159)
Put Option		
– Fair value gain	**(21)**	(35)
– Additional share of results of an investment accounted for using equity method	**18**	13
Adjusted profit attributable to shareholders of the Company used to determine the diluted earnings per share	**392**	46
Weighted average number of ordinary shares in issue (million shares)	**4,808**	4,533
Adjustments for:		
– Assumed conversion of certain convertible bonds	**986**	559
– Assumed exercise of Put Option	**184**	179
– Assumed exercise of contingent consideration payables	**–**	808
– Assumed exercise of EIS	**–**	11
Weighted average number of ordinary shares used to determine the diluted earnings per share	**5,978**	6,090
Diluted earnings per share attributable to the shareholders of the Company (RMB cents)	**6.56**	0.75

Certain convertible bonds and share option were not assumed to be converted/exercised as they would have an anti-dilutive impact to the profit attributable to the shareholders of the Company per share, for the year ended 31 December 2016 (2015: Same).

Notes to the Financial Statements

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'million	Leasehold improvements RMB'million	Power generating modules and equipment RMB'million	Plant and machinery RMB'million	Furniture, fixtures and office equipment RMB'million	Motor vehicles RMB'million	Construction in-progress RMB'million	Total RMB'million
At 1 January 2015								
Cost	27	–	4,717	4	6	3	3	4,760
Accumulated depreciation	(8)	–	(167)	(2)	(1)	(1)	–	(179)
Net book amount	19	–	4,550	2	5	2	3	4,581
Year ended 31 December 2015								
Opening net book amount	19	–	4,550	2	5	2	3	4,581
Acquisition of subsidiaries	–	–	2,998	–	1	1	–	3,000
Additions	–	1	–	2	14	1	63	81
Depreciation charge	(1)	–	(236)	–	(4)	(1)	–	(242)
Closing net book amount	18	1	7,312	4	16	3	66	7,420
At 31 December 2015								
Cost	27	1	7,715	6	21	5	66	7,841
Accumulated depreciation	(9)	–	(403)	(2)	(5)	(2)	–	(421)
Net book amount	18	1	7,312	4	16	3	66	7,420
Year ended 31 December 2016								
Opening net book amount	**18**	**1**	**7,312**	**4**	**16**	**3**	**66**	**7,420**
Acquisition of subsidiaries (Note 28)	**–**	**–**	**1,232**	**–**	**–**	**1**	**–**	**1,233**
Additions	**–**	**–**	**14**	**1**	**3**	**5**	**801**	**824**
Depreciation charge	**(1)**	**–**	**(290)**	**(1)**	**(7)**	**(2)**	**–**	**(301)**
Transfer	**–**	**–**	**830**	**–**	**–**	**–**	**(830)**	**–**
Closing net book amount	**17**	**1**	**9,098**	**4**	**12**	**7**	**37**	**9,176**
At 31 December 2016								
Cost	**27**	**1**	**9,791**	**7**	**24**	**11**	**37**	**9,898**
Accumulated depreciation	**(10)**	**–**	**(693)**	**(3)**	**(12)**	**(4)**	**–**	**(722)**
Net book amount	**17**	**1**	**9,098**	**4**	**12**	**7**	**37**	**9,176**

Note:

As at 31 December 2016, power generating modules and equipment with carrying values of RMB5,190 million (2015: RMB4,002 million) were pledged as security for the Group's bank borrowings of RMB3,849 million (2015: RMB2,867 million) and RMB3,184 million (2015: RMB2,543 million) were pledged as security for the Group's loans from leasing companies of RMB2,184 million (2015: RMB1,727 million) (Note 22).

Notes to the Financial Statements

14 INTANGIBLE ASSETS

	Concession rights	
	2016 RMB'million	2015 RMB'million
Year ended 31 December		
Opening net book amount	**950**	990
Redesignation in relation to acquisition of subsidiaries (Note 28)	**(33)**	(40)
Closing net book amount	**917**	950
At 31 December		
Cost	**1,570**	1,603
Accumulated impairment	**(653)**	(653)
Net book amount	**917**	950

(i) In June 2013, the Group acquired concession rights from various vendors, including GCL-Poly Investment Limited ("GCL"), New Energy Exchange Limited ("NEX"), Talesun Solar Hong Kong Limited ("Talesun") and other independent third parties, to develop and operate various solar power plant projects. As at 31 December 2016, the carrying amount of these concession rights amounted to approximately RMB917 million, of which approximately RMB53 million will expire in 2017 and majority of the remaining RMB791 million will expire in 2018. The Group has been in discussions with respective vendors and intends to exercise these concession rights and will acquire more solar power plants before their expiry.

(ii) For the purpose of annual impairment test for concession rights, management prepared its post-tax cash flow projection covering a period of the useful lives of solar power plants to determine the recoverable amount, which has been determined based on fair value less costs of disposal, as at 31 December 2016. The fair value measurement was categorised under level 3 fair value hierarchy. The recoverable amount was higher than its carrying value as at 31 December 2016, and therefore no impairment was considered necessary.

The key assumptions used for the post-tax cash flow projections, which are based on past experience of the Group and external sources of market information, are as follows:

	2016	2015
Capacity (Note (a))	**1.7GW**	1.9GW
Insolation hours (Geographical)	**1,000MWh/MWp – 1,646MWh/MWp**	1,244MWh/MWp – 1,936MWh/MWp
Degradation factor	**0.5% per annum**	0.8% per annum
Electricity tariff	**RMB0.64/KWh – RMB0.968/KWh**	RMB0.8/KWh – RMB1.26/KWh
Discount rate	**8.5% – 11.5%**	8.5%
Construction costs (Note (b))		
– Rooftop projects	**RMB8/W-RMB9.2/W**	RMB9/W – RMB9.7/W
– Ground projects	**RMB6.9/W – RMB10.5/W**	RMB8/W – RMB10.7/W

Notes:

(a) Drop in capacity was mainly due to the acquisition of certain solar power plants in relation to the concession rights held by the Group as at 31 December 2015.

(b) Except certain projects for which the acquisition price will be based on an internal rate of return calculation.

Notes to the Financial Statements

15 SUBSIDIARIES

(a) Particulars of the principal subsidiaries as at 31 December 2016 are as follows:

Name of company	Place of incorporation/ registration/ operation and kind of legal entity	Particulars of issued share capital/ registered capital	Proportion of issued share capital/registered capital indirectly held by the Company	Principal activities
China Solar Power Group Limited ("CSPG")	British Virgin Islands ("BVI")	Authorised, issued and fully paid: US$5,750,000	100%	Investment holding
China Technology New Energy Ltd	BVI	Issued and fully paid: US$1	100%	Possession of exclusive rights in developing rooftop solar plants
New Light Technology Limited	Hong Kong	Issued and fully paid: HK$10,000	100%	Investment holding
United Photovoltaics (Changzhou) Investment Limited	The PRC, limited liability company	Registered: HK$7,000,000,000 Paid up: HK$4,884,505,931	100%	Investment holding
United Photovoltaics (Shenzhen) Limited	The PRC, limited liability company	Registered: HK$300,000,000 Paid up: HK$162,000,000	100%	Design and installation of solar power systems, research and development of solar power products and solar technology
Zhongli (Jiayuguan) Photovoltaic Power Co., Limited	The PRC, limited liability company	Registered and paid up: RMB271,785,558	100%	Development, investment, operation and management of solar power plants
Zhongli Gonghe Photovoltaic Power Co., Limited	The PRC, limited liability company	Registered and paid up: RMB200,000,000	100%	Development, investment, operation and management of solar power plants
Hainanzhou Yahui New Energy Power Company Limited	The PRC, limited liability company	Registered and paid up: RMB351,000,000	100%	Development, investment, operation and management of solar power plants

Notes to the Financial Statements

15 SUBSIDIARIES (CONTINUED)

(a) Particulars of the principal subsidiaries as at 31 December 2016 are as follows: (Continued)

Name of company	Place of incorporation/ registration/ operation and kind of legal entity	Particulars of issued share capital/ registered capital	Proportion of issued share capital/registered capital indirectly held by the Company	Principal activities
Zhongli Talesun Gonghe New Energy Limited	The PRC, limited liability company	Registered and paid up: RMB342,000,000	100%	Development, investment, operation and management of solar power plants
Guodian Tuoketuo County Solar Power Company Limited	The PRC, limited liability company	Registered and paid up: RMB112,000,000	92.7%	Development, investment, operation and management of solar power plants
Guodian Chahaeryouyiqianqi Solar Power Company Limited	The PRC, limited liability company	Registered and paid up: RMB133,000,000	90.07%	Development, investment, operation and management of solar power plants
Guodian Wulatehouqi Solar Power Company Limited	The PRC, limited liability company	Registered and paid up: RMB129,000,000	94%	Development, investment, operation and management of solar power plants
Hami Huiteng Photovoltaic Company Limited	The PRC, limited liability company	Registered: RMB405,000,000 Paid up: RMB310,000,000	100%	Development, investment, operation and management of solar power plants
Turpan Zhongli Talesun Photovoltaic Company Limited	The PRC, limited liability company	Registered: RMB370,000,000 Paid up: RMB135,000,000	100%	Development, investment, operation and management of solar power plants
Minfeng County Angli Photovoltaic Technology Company Limited	The PRC, limited liability company	Registered and paid up: RMB150,000,000	90.9%	Development, investment, operation and management of solar power plants

Notes to the Financial Statements

15 SUBSIDIARIES (CONTINUED)

(a) Particulars of the principal subsidiaries as at 31 December 2016 are as follows: (Continued)

Name of company	Place of incorporation/ registration/ operation and kind of legal entity	Particulars of issued share capital/ registered capital	Proportion of issued share capital/registered capital indirectly held by the Company	Principal activities
Guodian Chahaeryouyiqianqi Second Solar Power Company Limited	The PRC, limited liability company	Registered: RMB102,000,000 Paid up: RMB92,622,000	99%	Development, investment, operation and management of solar power plants
Guodian Kezuozhongqi Photovoltaics Company Limited	The PRC, limited liability company	Registered: RMB169,700,000 Paid up: RMB69,600,000	99.4%	Development, investment, operation and management of solar power plants
Guodian Shangdu County Second Photovoltaics Company Limited	The PRC, limited liability company	Registered: RMB147,170,000 Paid up: RMB110,502,000	99.31%	Development, investment, operation and management of solar power plants
Hubei Jingtai Photovoltaics Power Company Limited	The PRC, limited liability company	Registered and paid up: RMB250,000,000	100%	Development, investment, operation and management of solar power plants
Datong United Photovoltaics New Energy Company Limited	The PRC, limited liability company	Registered and paid up: RMB200,000,000	100%	Development, investment, operation and management of solar power plants
Yongsheng Huiguang Photovoltaics Power Co., Ltd. ("Yongsheng")	The PRC, limited liability company	Registered and paid up: RMB55,000,000	55.64%	Development, investment, operation and management of solar power plants
Wujiaqu Lishang Photovoltaics Power Co., Ltd ("Wujiaqu")	The PRC, limited liability company	Registered: RMB57,000,000 Paid up: RMB40,000,000	100%	Development, investment, operation and management of solar power plants
Yongren Huiguang Photovoltaics Power Co., Limited ("Yongren")	The PRC, limited liability company	Registered and paid up: RMB50,000,000	100%	Development, investment, operation and management of solar power plants

Notes to the Financial Statements

15 SUBSIDIARIES (CONTINUED)

(a) Particulars of the principal subsidiaries as at 31 December 2016 are as follows: (Continued)

Name of company	Place of incorporation/ registration/ operation and kind of legal entity	Particulars of issued share capital/ registered capital	Proportion of issued share capital/registered capital indirectly held by the Company	Principal activities
Yangyuan Zhongjiu Energy Development Technology Co., Limited ("Yangyuan Zhongjiu")	The PRC, limited liability company	Registered and paid up: RMB60,000,000	100%	Development, investment, operation and management of solar power plants
Haiyang-Xin Shunfeng Photovoltaic Technology Company Limited ("Haiyang-Xin")	The PRC, limited liability company	Registered and paid up: RMB75,000,000	100%	Development, investment, operation and management of solar power plants

Notes:

(i) The English names of certain subsidiaries represent the best effort by the Group's management to translate their Chinese names, as these subsidiaries do not have official English names.

(ii) The cash at banks of approximately RMB2,513 million (2015: RMB712 million) held by the PRC subsidiaries were subject to local exchange control regulations. These local exchange control regulations provided for restrictions on exporting capital from the country other than through normal dividends.

(b) Material non-wholly owned subsidiaries

As at 31 December 2016, the Group had eight non-wholly owned subsidiaries (2015: ten). The total non-controlling interest for the year was approximately RMB114 million (2015: RMB105 million). At the end of each reporting date, the Group re-assessed those subsidiaries that have non-controlling interests that are considered material to the Group based on their relative size in terms of installed capacities, total assets, revenue and EBITDA. No individual non-controlling interests were considered material to the Group as at 31 December 2016.

(c) Acquisition of additional interests in subsidiaries

In November 2016, the Group acquired an additional 49% equity interests in Changzhou Guangyu New Energy Company Limited ("Changzhou Guangyu"), which owns two project companies with aggregate installed capacity of 80MW in Xinjiang, for cash consideration of approximately RMB20 million. Changzhou Guangyu has become a wholly-owned subsidiary of the Group. The difference between the fair value of consideration paid or payable and the carrying amount of the non-controlling interests amounted to approximately RMB20 million was recognised in other reserve.

In December 2015, the Group acquired 100% equity interest in Carbon Assets Management Limited (formerly known as Honour Sky International Limited), which holds the remaining 8.4% equity interest in China Merchants Zhangzhou Development Zone Silk Road Ark Carbon Asset Management Co., Limited for a maximum of 15,000,000 shares of the Company as consideration. 10,000,000 shares have been issued upon completion while the remaining 5,000,000 shares would be issued after fulfilling of the post-completion conditions. The post-completion conditions have been fulfilled in September 2016.

Notes to the Financial Statements

16 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The amounts recognised in the consolidated statement of financial position are as follows:

	2016 RMB'million	2015 RMB'million
Investments in associates (Note (a))	**291**	305
Investment in a joint venture (Note (b))	**224**	–
	515	305

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2016 RMB'million	2015 RMB'million
Share of profits from associates (Note (a))	**19**	4
Share of profits from a joint venture (Note (b))	**4**	–
	23	4

Notes:

(a) Investments in associates

	2016 RMB'million	2015 RMB'million
As 1 January	**305**	291
Fair value of consideration for the acquisitions		
– cash	**–**	35
– bargain purchase arising from acquisition	**–**	10
Reclassify to financial assets at fair value through profit or loss (i)	**(17)**	–
Step-acquisition of a subsidiary (Note 28)	**(16)**	–
Disposal of an associate	**–**	(35)
Share of profits from associates	**19**	4
As 31 December	**291**	305

(i) The investee is principally engaged in provision of solar energy related products and solutions; development, investment, operation, management of solar power plants; consultation service of renewable energy; and information technology development and technical support service. The Group ceased to have significant influence over the investee during the year. The directors of the Company intend to divest this investment in the foreseeable future and accordingly, it is classified as investment held for trading and its fair value is determined with reference to a business valuation report issued by an independent valuer. The fair value gain recognised during the year was approximately RMB212 million (Note 18).

Notes to the Financial Statements

16 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (CONTINUED)

Notes: (Continued)

(a) Investments in associates (Continued)

Pursuant to the acquisition of a 50% equity interest in an associate in December 2013, the Group granted the Put Option to acquire the remaining 50% equity interest in such associate during a three-year period till December 2016. The Put Option expired during the year and had been derecognised accordingly.

Pursuant to an option agreement entered into between the Group and the major shareholder of an associate in January 2015, the Group was granted Asso Call Option to acquire part or all of the equity interest in this associate from the major shareholder at the actual injection amount with an internal rate of return of 8% per annum. The Asso Call Option may be exercisable by the Group within three months from the third anniversary of the completion of the registration of the share transfer as its discretion. As at 31 December 2016 and 2015, the major shareholder held 96.68% equity interest in such associate.

The fair value of the Asso Call Option was determined by using the binomial model with the following key assumptions:

	As at 31 December 2016	As at 31 December 2015
Risk free rate	**2.77%**	2.61%
Dividend yield	**0%**	0%
Life of the option	**1.26 years**	2.26 years
Volatility	**40%**	50%

Set out below are the particulars of the material associate of the Group as at 31 December 2016.

Name of entity	**Place of establishment**	**% of ownership interest**	**Nature of business**
Fengxian Huize Photovoltaic Energy Limited* ("Fengxian Huize")	The PRC	50%	Development, investment, operation and management of solar power plants

* The English name of the associate represents the best effort by the Group's management to translate its Chinese name, as the associate do not have official English name.

Notes to the Financial Statements

16 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (CONTINUED)

Notes: (Continued)

(a) Investments in associates (Continued)

All associates were private companies and there were no quoted market prices available for their shares.

There were no contingent liabilities relating to the Group's investments in associates.

Set out below are the summarised financial information for Fengxian Huize.

	(Unaudited)	
	2016 RMB'million	2015 RMB'million
Assets and liabilities as at 31 December		
Current assets	**224**	172
Non-current assets	**372**	385
Current liabilities	**(28)**	(25)
Non-current liabilities	**(17)**	(18)
Profit or loss for the year ended 31 December		
Revenue	**60**	58
Profit for the year	**36**	26
Other comprehensive income	**–**	–
Total comprehensive income	**36**	26
Dividend received from associates	**–**	–

Set out below are the summarised financial information for the remaining associates which were individually immaterial to the Group.

	2016 RMB'million	2015 RMB'million
The Group's share on:		
– Profit/(loss) for the year	**1**	(9)
– Other comprehensive income	**–**	–
– Total comprehensive income	**1**	(9)
Carrying amount of investments	**16**	48

As at 31 December 2016, the cash and cash equivalents of approximately RMB204 million (2015: RMB197 million) that were held by PRC entities of the associates were subject to local exchange control regulations. These local exchange control regulations provided for restrictions on exporting capital from the country other than through normal dividends.

As at 31 December 2015, the amounts due from/(to) associates were unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

16 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (CONTINUED)

Notes: (Continued)

(b) Investment in a joint venture

	2016 RMB'million	2015 RMB'million
As 1 January	–	–
Fair value of consideration for the acquisitions		
– cash	108	–
– bargain purchase arising from acquisition	112	–
Share of profits from a joint venture	4	–
As 31 December	224	–

In November 2016, the Group completed the acquisition of 50% equity interest in a joint venture at a cash consideration of approximately RMB108 million.

Pursuant to an option agreement entered into between the Group and the shareholder of remaining 50% equity interest in such joint venture in November 2016, the Group was granted JV Call Option to acquire part or all of the remaining 50% equity interest in this joint venture at maximum of RMB108 million. The JV Call Option may be exercisable by the Group within three months from the third anniversary of the completion of the registration of the share transfer as its discretion. As at 31 December 2016, the other shareholder held 50% equity interest in such joint venture.

The fair value of the JV Call Option was determined by using the binomial model with the following key assumptions:

	On inception	As at 31 December 2016
Risk free rate	2.58%	2.90%
Dividend yield	0%	0%
Life of the option	3.25 years	3.16 years
Volatility	55%	55%

Set out below are the particulars of the joint venture of the Group as at 31 December 2016.

Name of entity	Place of establishment	% of ownership interest	Nature of business
Tibet Zhongzi Photovoltaic Energy Limited* ("Tibet Zhongzi")	The PRC	50%	Development, investment, operation and management of solar power plants

* The English name of the joint venture represents the best effort by the Group's management to translate its Chinese name, as the joint venture do not have official English name.

Notes to the Financial Statements

16 INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (CONTINUED)

Notes: (Continued)

(b) Investment in a joint venture (Continued)

The joint venture was a private company and there was no quoted market prices available for its shares.

There was no contingent liabilities relating to the Group's interest in this joint venture.

Set out below are the summarised financial information for Tibet Zhongzi since completion of acquisition.

	(Unaudited) 2016 RMB'million
Assets and liabilities as at 31 December	
Current assets	153
– Cash and cash equivalents	20
Total non-current assets	1,997
Total current liabilities	(452)
– Financial liabilities (excluding trade payables)	(443)
Total non-current liabilities	(1,250)
– Financial liabilities	(1,190)
Profit or loss for the period ended 31 December	
Revenue	17
Depreciation	(4)
Interest income	–
Interest expense	(3)
Income tax expenses	–
Profit for the period	8
Other comprehensive income	–
Total comprehensive income	8
Dividend received from a joint venture	–

As at 31 December 2016, the cash and cash equivalents of approximately RMB20 million (2015: Nil) that were held by PRC entities of the joint venture were subject to local exchange control regulations. These local exchange control regulations provided for restrictions on exporting capital from the country other than through normal dividends.

As at 31 December 2016, the amount due from a joint venture was unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

17 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 RMB'million	2015 RMB'million
Non-current		
Prepayments for purchase of plant and equipment	9	59
Deposits for investments (Note (a))	293	80
Value-added tax recoverable	466	468
Others	3	–
	771	607
Current		
Amounts due from associates (Note 16(a))	–	279
Advance payment (Note (b))	–	424
Amount due from a related company (Note (c))	20	–
Amount due from a joint venture (Note 16(b))	20	–
Value-added tax recoverable	384	265
Other receivables, deposits and prepayments	330	82
	754	1,050
Total	1,525	1,657

Notes:

(a) During the year, the Group entered into several conditional sale and purchase agreements with independent third parties in relation to proposed acquisition of project companies which own solar power plants. Up to 31 December 2016, the Group has already paid RMB293 million as investments deposit (2015: RMB80 million).

(b) An advance payment in respect of proposed acquisitions of 930MW solar power plant projects of HK$500 million (equivalent to approximately RMB424 million) was made in 2015. Such proposed acquisitions were cancelled and the advance payment was fully refunded together with the interest of approximately HK$28 million (equivalent to approximately RMB24 million) during the year.

(c) As at 31 December 2016, the amount due from a related company was unsecured, interest-free and repayable within one year.

Notes to the Financial Statements

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'million	2015 RMB'million
Call option issued relating to the acquisition of investments accounted for using equity method		
– Asso Call Option (Note 16(a))	**87**	121
– JV Call Option (Note 16(b))	**165**	–
Guaranteed electricity output (Note (a))	**111**	–
Unlisted investment (Note 16(a)(i))	**229**	–
	592	121
Less: Amounts classified as non-current portion	**(252)**	(121)
Current portion	**340**	–

Note:

(a) According to certain sale and purchase agreements entered into between the Group and the vendors in respect of acquisition of subsidiaries, the vendors undertook to guarantee certain level of electricity output generated by the underlying solar power plants for a period of time and the shortfall would be payable by the vendors. The fair value was arrived at after considering the contractual terms, the actual shortfall in electricity generated and the outcome of recent negotiation with the relevant vendors.

19 TRADE, BILLS AND TARIFF ADJUSTMENT RECEIVABLES

	2016 RMB'million	2015 RMB'million
Trade receivables	**26**	212
Less: Provision for impairment	**–**	–
Trade receivables – net	**26**	212
Tariff adjustment receivables	**1,383**	1,009
Trade and tariff adjustment receivables	**1,409**	1,221
Bills receivables	**9**	7
Trade, bills and tariff adjustment receivables	**1,418**	1,228

As at 31 December 2016, trade receivables of approximately RMB26 million represented receivables from sales of electricity and are usually settled within one month (2015: RMB212 million mainly represented receivables from sales of electricity and sales of solar energy related products). Tariff adjustment receivables mainly represented (i) the central government subsidies on renewable energy projects to be received from the State Grid Corporation of China and Inner Mongolia Power Co. Ltd based on the respective electricity sale and purchase agreements for each of the Group's solar plants and prevailing nationwide government policies, of which approximately RMB10 million, RMB1,048 million and RMB296 million were arising from the 5th batch, 6th batch and the awaiting 7th batch of the Catalogue, respectively; and (ii) the provincial government subsidies on renewable energy projects, of which approximately RMB9 million and RMB16 million are arising from electricity generated in 2015 and 2016, respectively. The management believes that all existing solar power plants currently held by the Group, if not registered in the previous Catalogue, are eligible for the registration onto the Catalogue and the tariff adjustment receivables arising from the 6th batch Catalogue will be received in 2017.

Notes to the Financial Statements

19 TRADE, BILLS AND TARIFF ADJUSTMENT RECEIVABLES (CONTINUED)

The ageing analysis by invoice date of trade and tariff adjustment receivables was as follows:

	2016 RMB'million	2015 RMB'million
Not yet due	**1,409**	1,063
1-30 days	**–**	158
	1,409	1,221

As at 31 December 2016 and 2015, no trade and tariff adjustment receivables were past due but not impaired.

The maximum exposure to credit risk at the reporting date was the carrying value of each of the receivable mentioned above. The Group did not hold any collateral as security.

20 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND RESTRICTED CASH

	2016 RMB'million	2015 RMB'million
Pledged deposits (Note (b))		
– Non-current portion	**1,014**	134
– Current portion	**987**	–
Restricted cash (Note (c))	**41**	206
Cash and cash equivalents	**996**	947
	3,038	1,287

Notes:

(a) As at 31 December 2016, the Group's bank balances of approximately RMB2,513 million (2015: RMB712 million) were deposited with banks in the PRC. The remittance of these funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Pledged deposits represent deposits pledged to banks or other financial institutes to secure banking facilities granted to the Group (Note 22(a)). Deposits amounting RMB1,014 million were pledged to secure long-term borrowings granted to the Group which are due after one year, and therefore classified as non-current assets. The remaining deposits were pledged to secure short-term borrowings and therefore classified as current assets.

(c) As at 31 December 2016, bank balance of RMB17 million was restricted for certain environmental protection purpose required by the local government. The deposit will be released upon fulfillment of such requirement. The remaining balance of RMB24 million was restricted deposit held at bank as security for acquisition of a solar power plant. (2015: bank balances of RMB186 million and RMB20 million were restricted deposits held at banks as reserve for bills facilities provided by a bank and the interest of the convertible bond (Note 23), respectively.)

Notes to the Financial Statements

21 SHARE CAPITAL

	Number of shares (million)		Share capital	
	2016	2015	**2016 RMB'million**	2015 RMB'million
Ordinary shares of HK$0.1 each				
Authorised:				
At 1 January	**20,000**	10,000	**1,637**	848
Increase in authorised share capital	**–**	10,000	**–**	789
At 31 December	**20,000**	20,000	**1,637**	1,637
Issued and fully paid:				
At 1 January	**4,751**	4,361	**386**	355
Issue of shares through placement (Note (a))	**100**	380	**9**	30
Issue of shares on conversion of convertible bonds (Note 23)	**88**	–	**7**	–
Issue of shares upon transaction with a non-controlling interest (Note 15(c))	**5**	10	**–**	1
At 31 December	**4,944**	4,751	**402**	386

(a) On 28 December 2016, the Company issued 100,000,000 shares through placement with a price of HK$0.6 each. The net proceeds from the placement was approximately RMB53 million after netting off related transaction costs.

(b) Share option

On 8 January 2015 and 28 January 2016, certain share options were granted under the share option scheme adopted on 19 June 2012 ("Option Scheme") to directors and employees of the Group. The option granted are subject to a vesting scale in tranches of 30%, 30% and 40% with a vesting period of 1, 2 and 3 years respectively starting from the 1st anniversary and become fully vested on the 1st, 2nd and 3rd anniversary of the grant respectively. In below table, "exercisable period" begins with the 1st anniversary of the grant date.

Notes to the Financial Statements

21 SHARE CAPITAL (CONTINUED)

(b) Share option (Continued)

Details of the share options granted and movement in such holding during the year are as follows:

			Number of share option (in thousands)				
Date of grant	Exercisable period	Exercise price per share HK$	Balance as at 31 December 2015	Granted during the year	Exercised during the year	Forfeited during the year	Balance as at 31 December 2016
Directors							
8 January 2015	8 January 2016 to 7 January 2020	1.00	7,200	–	–	–	7,200
8 January 2015	8 January 2017 to 7 January 2020	1.00	7,200	–	–	–	7,200
8 January 2015	8 January 2018 to 7 January 2020	1.00	9,600	–	–	–	9,600
28 January 2016	28 January 2017 to 27 January 2021	0.564	–	5,400	–	–	5,400
28 January 2016	28 January 2018 to 27 January 2021	0.564	–	5,400	–	–	5,400
28 January 2016	28 January 2019 to 27 January 2021	0.564	–	7,200	–	–	7,200
			24,000	18,000	–	–	42,000
Employees							
8 January 2015	8 January 2016 to 7 January 2020	1.00	8,340	–	–	(630)	7,710
8 January 2015	8 January 2017 to 7 January 2020	1.00	8,340	–	–	(630)	7,710
8 January 2015	8 January 2018 to 7 January 2020	1.00	11,120	–	–	(840)	10,280
28 January 2016	28 January 2017 to 27 January 2021	0.564	–	5,570	–	(575)	4,995
28 January 2016	28 January 2018 to 27 January 2021	0.564	–	5,570	–	(575)	4,995
28 January 2016	28 January 2019 to 27 January 2021	0.564	–	7,428	–	(768)	6,660
			27,800	18,568	–	(4,018)	42,350
			51,800	36,568	–	(4,018)	84,350

The recognition of compensation cost of share options is based on their fair values of the options on grant date. The fair values of share options measured at the date of grant (8 January 2015 and 28 January 2016) amounted to approximately RMB18 million and RMB6 million respectively were determined by using binomial model. During the year ended 31 December 2016, share-based payment expense of approximately RMB7 million (2015: RMB9 million) was recognised in the consolidated statement of profit or loss in relation to the share options. Approximately 15 million outstanding options were exercisable as at 31 December 2016 (2015: Nil).

Notes to the Financial Statements

21 SHARE CAPITAL (CONTINUED)

(b) Share option (Continued)

The variables and assumptions used in computing the fair value of the share options are based on the management's best estimate. The value of an option varies with different variables of a number of subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The significant assumptions used in the binomial model to derive the fair value were as follows:

	On 28 January 2016	On 8 January 2015
Risk free rate	**1.295%**	1.257%
Volatility	**45%**	45%
Dividend yield	**0%**	0%
Expected option life (year)	**5**	5
Exercise price per share	**HK$0.564**	HK$1.0

(c) EIS of CSPG

Prior to the acquisition of CSPG by the Group in 2013, the EIS was approved by CSPG to the effect that 25,000,000 ordinary shares of the CSPG with a par value of US$0.01 each were issued to a trustee.

As part of the acquisition of CSPG, 20,010,000 shares of the Company, Series A convertible bonds with a principal amount of HK$40,020,000 and Series B convertible bonds with a principal amount of HK$40,020,000 was issued to the Trustee in exchange for the CSPG shares held by the Trustee. All Series A convertible bonds had been converted into the ordinary shares of the Company in 2014 while all Series B convertible bonds were converted into the ordinary shares of the Company during the year.

During the year ended 31 December 2016, none of the share-based payment expenses (2015: RMB16 million) was recognised in the consolidated statement of profit or loss in relation to EIS.

(d) Other reserve represented the difference between the fair value of consideration paid and payable and the carrying amount of net assets attributable to the additional interest in the subsidiaries being acquired from non-controlling interests.

(e) The PRC companies are required to allocate 10% of their net profit to a statutory reserve fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

Notes to the Financial Statements

22 BANK AND OTHER BORROWINGS

	2016			2015		
	Current portion RMB'million	Non-current portion RMB'million	Total RMB'million	Current portion RMB'million	Non-current portion RMB'million	Total RMB'million
Bank borrowings	3,133	4,691	7,824	647	2,616	3,263
Loans from leasing companies	899	1,285	2,184	32	1,695	1,727
Medium-term notes	70	100	170	–	65	65
Loans from third parties	101	–	101	56	–	56
	4,203	6,076	10,279	735	4,376	5,111
Unamortised loan facilities fees	(51)	(94)	(145)	(31)	(71)	(102)
	4,152	5,982	10,134	704	4,305	5,009

As at 31 December 2016 and 2015, the Group's bank and other borrowings were repayable as follows:

	2016					2015				
	Bank borrowings RMB'million	Loans from leasing companies RMB'million	Medium-term notes RMB'million	Loans from third parties RMB'million	Total RMB'million	Bank borrowings RMB'million	Loans from leasing companies RMB'million	Medium-term notes RMB'million	Loans from a third party RMB'million	Total RMB'million
Within 1 year	3,133	899	70	101	4,203	647	32	–	56	735
Between 1 and 2 years	1,478	174	–	–	1,652	292	493	65	–	850
Between 2 and 5 years	1,459	505	100	–	2,064	902	445	–	–	1,347
Over 5 years	1,754	606	–	–	2,360	1,422	757	–	–	2,179
	7,824	2,184	170	101	10,279	3,263	1,727	65	56	5,111

Notes to the Financial Statements

22 BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2016, bank borrowings and loans from leasing companies are secured by the following:

(i) Pledged deposits (Note 20);

(ii) power generating modules and equipment (Note 13);

(iii) pledge of the fee collection right in relation to the sales of electricity; and

(iv) mortgage over the equity interest in certain subsidiaries.

(b) During the year, the Group entered into several sales and leaseback agreements with leasing companies for certain assets, which included power generating modules and equipment ("Secured Assets"), of principal amounted RMB1,095 million (2015: RMB600 million). The arrangements were for periods of 2 to 10 years. Upon maturity, the Group will be entitled to purchase the Secured Assets at a minimal consideration. The Group considered that it was almost certain that they would exercise this repurchase option. As substantial risks and rewards of the Secured Assets were retained by the Group before and after these arrangements, the transactions were regarded as secured borrowings, rather than finance lease arrangements.

(c) Medium-term notes

In May 2015, the Company established a medium-term note programme under which the Company may issue from time to time medium-term notes to professional investors and institutional investors. The notes are guaranteed as to principal and interest by the Company and bear an effective interest rate equal to their respective contracted interest rate.

As at 31 December 2016, the outstanding medium-term notes are of principal amount totaling HK$198 million (2015: HK$80 million).

(d) Loans from third parties

As at 31 December 2016, except for amount of RMB45 million which was secured by mortgage over the equity interest in certain subsidiaries, bear fixed interest rate of 1% per annum and repayable in December 2017, the remaining loans from third parties were unsecured, interest-free and repayable on demand.

(e) Bank borrowings and loans from leasing companies which bear floating interest rates is as follows:

	2016 RMB'million	2015 RMB'million
Bank borrowings	**4,676**	2,867
Loans from leasing companies	**2,184**	1,727
	6,860	4,594

(f) As at 31 December 2016, the Group had unused uncommitted facilities of RMB659 million, which will be expired after 31 December 2017.

(g) The effective interest rate per annum of bank and other borrowings as at 31 December 2016 was 4.9% (2015: 5.9%).

Notes to the Financial Statements

23 CONVERTIBLE BONDS

As at 31 December 2016, the Group had eight convertible bonds outstanding (2015: seven). The table below summarised the details and features of these convertible bonds.

Batch	Issue date	Principal amount (thousands)	Interest rate per annum	Maturity date	Conversion price per share	Conversion period
1st	27 December 2013	HK$232,959	0%	27 December 2018	HK$1.60	At any time up to maturity date
2nd	20 April 2015	HK$524,803	7.5%	20 April 2018	HK$1.03	Last day of a six-month period immediately following the issue date to 5th business days prior to maturity date
3rd	10 June 2013	HK$847,964	0%	10 June 2018	HK$1.00	The day immediately following the date end of lock-up period up to maturity date
4th	29 April 2015	US$30,000	7.5%	29 April 2018	HK$1.03	Last day of a six-month period immediately following the issue date to 5th business days prior to maturity date
5th	3 June 2015	US$100,000	7.0%	3 June 2018	HK$1.3134	The day immediately following the issue date to 5 days prior to maturity date
6th	23 June 2015	US$15,000	7.5%	23 June 2018	HK$1.03	The day immediately following the issue date to 5th business days prior to maturity date
7th	29 December 2015	US$100,000	6.75%	29 December 2018	HK$1.5928	The day immediately following the issue date to 5th business days prior to maturity date
8th	26 August 2016	US$50,000	6.5%	26 August 2019	HK$0.65	Last day of a three-month period immediately following the issue date to 5th business days prior to maturity date

Notes to the Financial Statements

23 CONVERTIBLE BONDS (CONTINUED)

Subject to the occurrence of any of the following events, the Company is entitled to, having given mandatory conversion notice to all bondholders, convert all the outstanding principal amount of convertible bonds into conversion shares at the conversion price then in effect:

Batch	Mandatory conversion notice period	Mandatory conversion clause
1st	N/A	N/A
2nd	Not less than 5 nor more than 10 business days	if at any time during the period commencing from the last day of a six-month period immediately following the issue date and ending on the maturity date, the average closing price per share for any 15 consecutive trading days reaches HK$1.70 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 65% over the conversion price then in effect from time to time) or above.
3rd	N/A	N/A
4th	Not less than 5 nor more than 10 business days	if at any time during the period commencing from the issue date up to the day immediately before the first anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$1.50 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 45.63% over the conversion price then in effect from time to time) or above; if at any time during the period commencing from the first anniversary of the issue date up to the day immediately before the second anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$1.80 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 74.76% over the conversion price then in effect from time to time) or above; or if at any time during the period commencing from the second anniversary of the issue date up to maturity date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$2.20 per share (or if there is any adjustment of the conversion price, such other price per Share representing a premium of 113.59% over the conversion price then in effect from time to time) or above.

Notes to the Financial Statements

23 CONVERTIBLE BONDS (CONTINUED)

Batch	Mandatory conversion notice period	Mandatory conversion clause
5th	Not less than 5 nor more than 10 business days	if at any time during the period commencing from the issue date up to the day immediately before the first anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$1.80 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 37.05% over the conversion price then in effect from time to time) or above; if at any time during the period commencing from the first anniversary of the issue date up to the day immediately before the second anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$2.20 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 67.50% over the conversion price then in effect from time to time) or above; or if at any time during the period commencing from the second anniversary of the issue date up to maturity date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$2.50 per share (or if there is any adjustment of the conversion price, such other price per Share representing a premium of 90.35% over the conversion price then in effect from time to time) or above.
6th	Not less than 5 nor more than 10 business days	if at any time during the period commencing from the issue date up to the day immediately before the first anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$1.50 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 45.63% over the conversion price then in effect from time to time) or above; if at any time during the period commencing from the first anniversary of the issue date up to the day immediately before the second anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$1.80 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 74.76% over the conversion price then in effect from time to time) or above; or if at any time during the period commencing from the second anniversary of the issue date up to maturity date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$2.20 per share (or if there is any adjustment of the conversion price, such other price per Share representing a premium of 113.59% over the conversion price then in effect from time to time) or above.

Notes to the Financial Statements

23 CONVERTIBLE BONDS (CONTINUED)

Batch	Mandatory conversion notice period	Mandatory conversion clause
7th	Not less than 5 nor more than 10 business days	if at any time during the period commencing from the issue date up to the day immediately before the first anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$2.07 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 29.96% over the conversion price then in effect from time to time) or above; if at any time during the period commencing from the first anniversary of the issue date up to the day immediately before the second anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$2.50 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 56.96% over the conversion price then in effect from time to time) or above; or if at any time during the period commencing from the second anniversary of the issue date up to maturity date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$3.0 per share (or if there is any adjustment of the conversion price, such other price per Share representing a premium of 88.35% over the conversion price then in effect from time to time) or above.
8th	Not less than 5 nor more than 10 business days	if at any time during the period commencing from the issue date up to the day immediately before the first anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$1.30 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 100% over the conversion price then in effect from time to time) or above; if at any time during the period commencing from the first anniversary of the issue date up to the day immediately before the second anniversary of the issue date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$1.65 per share (or if there is any adjustment of the conversion price, such other price per share representing a premium of 153.85% over the conversion price then in effect from time to time) or above; or if at any time during the period commencing from the second anniversary of the issue date up to maturity date (both dates inclusive), the closing price per share for any 15 consecutive trading days reaches HK$2.0 per share (or if there is any adjustment of the conversion price, such other price per Share representing a premium of 207.69% over the conversion price then in effect from time to time) or above.

Notes to the Financial Statements

23 CONVERTIBLE BONDS (CONTINUED)

As at 1 April 2016, the profit guarantee has been fulfilled and thus the contingent consideration payables were released from the escrow account and the contingent consideration payables have been reclassified to 3rd batch convertible bonds.

During the year, the Company issued and allotted approximately 88 million shares of HK$0.1 each upon exercise of conversion rights associated with 3rd batch convertible bonds. The conversion price was HK$1.0 per share.

During the year, the Company issued a 3-year convertible bond (8th batch) of principal amount of US$50 million and the net proceeds from these convertible bonds were approximately RMB297 million. The conversion features of such batch of convertible bonds fail the fixed-to-fixed requirement for equity classification. They contain two components, debts component and derivative component with a conversion option derivative of the holders and a callable option derivative of the Company.

In October 2016, the Company has fully redeemed convertibles bonds with principal amount of US$120 million ("US$120m CB") at maturity. Upon the redemption in full, all guarantee or collaterals provided under and in respect of US$120m CB have been fully discharged.

Notes to the Financial Statements

23 CONVERTIBLE BONDS (CONTINUED)

Summarised below is the movement of each portion under liabilities component during the year:

	Financial liabilities at amortised cost- debt portion RMB'million	**Financial liabilities at fair value through profit or loss - derivative portion** RMB'million	**Total** RMB'million
As at 1 January 2015	783	43	826
Fair value of convertible bonds issued	1,610	331	1,941
Equity component	(114)	–	(114)
Day 1 fair value loss on issue	50	–	50
Interest accretion	366	–	366
Fair value gain recognised	–	(279)	(279)
Interests paid	(37)	–	(37)
Exchange difference	145	13	158
As at 31 December 2015 and 1 January 2016	**2,803**	**108**	**2,911**
Fair value of convertible bonds issued	**255**	**42**	**297**
Reclassify from contingent consideration payables (Note 24)	**488**	**–**	**488**
Interest accretion	**640**	**–**	**640**
Fair value gain recognised	**–**	**(68)**	**(68)**
Interests paid	**(185)**	**–**	**(185)**
Conversion of convertible bonds	**(30)**	**–**	**(30)**
Redemption upon maturity	**(1,064)**	**–**	**(1,064)**
Exchange difference	**161**	**4**	**165**
As at 31 December 2016	**3,068**	**86**	**3,154**

The liability portion of convertible bonds was analysed as follows:

	2016 RMB'million	2015 RMB'million
Non-current liabilities	**3,154**	1,987
Current liabilities	**–**	924
	3,154	2,911

Notes to the Financial Statements

23 CONVERTIBLE BONDS (CONTINUED)

Notes:

(a) The recurring fair values measurement of derivatives embedded to the convertible bonds were determined by using the binomial model, with the following key assumptions:

On inception date

	Batch 8
Discount rate	12.5%
Fair value of each share of the Company (HK$)	0.59
Conversion price per share (HK$)	0.65
Coupon rate	6.5%
Redemption price	109%
Risk free interest rate	1.0464%
Time to maturity (years)	3.00
Expected volatility	50%
Expected dividend yield	0%

As at 31 December 2016

	Batch 4	Batch 5	Batch 6	Batch 7	Batch 8
Discount rate	7.6%	7.7%	7.7%	8.1%	8.5%
Fair value of each share of the Company (HK$)	0.73	0.73	0.73	0.73	0.73
Conversion price per share (HK$)	1.03	1.3134	1.03	1.5928	0.65
Coupon rate	7.5%	7.0%	7.5%	6.75%	6.5%
Redemption price	120%	120%	120%	120%	109%
Risk free interest rate	1.0147%	1.0492%	1.0721%	1.2674%	1.4814%
Time to maturity (years)	1.33	1.42	1.48	1.99	2.65
Expected volatility	50%	50%	50%	50%	50%
Expected dividend yield	0%	0%	0%	0%	0%

As at 31 December 2015

	US$120m CB	Batch 4	Batch 5	Batch 6	Batch 7
Discount rate	16.1%	16.8%	16.9%	16.9%	17.2%
Fair value of each share of the Company (HK$)	0.75	0.75	0.75	0.75	0.75
Conversion price per share (HK$)	1.60	1.03	1.3134	1.03	1.5928
Coupon rate	5%	7.5%	7.0%	7.5%	6.75%
Redemption price	135%	120%	120%	120%	120%
Risk free interest rate	0.6379%	1.2229%	1.2528%	1.2727%	1.4808%
Time to maturity (years)	0.77	2.33	2.42	2.48	3.00
Expected volatility	55%	50%	50%	50%	50%
Expected dividend yield	0%	0%	0%	0%	0%

(b) As at 31 December 2016, several convertible bonds were secured by share mortgage over equity interest in certain subsidiaries (2015: Same).

As at 31 December 2015, US$120m CB was charged over a restricted bank account for interest reserve purpose. The collaterals have been fully discharged upon the redemption of US$120m CB in October 2016.

Notes to the Financial Statements

24 CONTINGENT CONSIDERATION PAYABLES

	2016 RMB'million	2015 RMB'million
At 1 January	**581**	697
Fair value gain	**(37)**	(159)
Reclassify to convertible bonds and convertible bonds equity reserve		
– liabilities portion (Note 23)	**(488)**	–
– equity portion	**(37)**	–
Exchange difference	**(19)**	43
At 31 December	**–**	581

The Series B convertible bonds were issued to the vendors pursuant to the Sale and Purchase Agreement for acquisition of CSPG as part of the consideration. They were held under escrow for securing the profit guarantee. In April 2016, all profit guarantee conditions had been fulfilled and the contingent consideration payables were reclassified to convertible bonds (Note 23) and convertible bonds equity reserve accordingly.

25 DEFERRED TAX LIABILITIES

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rates enacted or substantively enacted by the end of the reporting period in the respective jurisdictions. The movement in deferred tax liabilities during the year is as follows:

	Fair value gains	
	2016 RMB'million	2015 RMB'million
At 1 January	**282**	247
Acquisition of subsidiaries (Note 28)	**30**	43
Redesignation of concession rights in relation to acquisition of subsidiaries (Note 28)	**(7)**	(8)
At 31 December	**305**	282
Analysed as:		
To be recovered after than 12 months	**305**	282
To be recovered within 12 months	**–**	–
	305	282

Notes to the Financial Statements

25 DEFERRED TAX LIABILITIES (CONTINUED)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC.

As at 31 December 2016, deferred income tax liabilities of RMB59 million (2015: RMB43 million) have not been recognised for the withholding tax that would be payable on the remittance of earnings of PRC subsidiaries. The related unremitted earnings totalling RMB590 million at 31 December 2016 (2015: RMB431 million), and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Company in the foreseeable future.

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised deferred tax assets of approximately RMB51 million (2015: RMB14 million) in respect of tax losses of approximately RMB206 million (2015: RMB56 million), that can be carried forward against future taxable income.

Cumulative unrecognised tax losses will be expired in the following years:

	2016 RMB'million	2015 RMB'million
2016	**–**	1
2017	**1**	5
2018	**4**	13
2019	**49**	14
2020	**59**	23
2021	**93**	–

26 OTHER PAYABLES AND ACCRUALS

	2016 RMB'million	2015 RMB'million
Construction costs payable	**563**	1,442
Value-added tax payables	**198**	143
Other payables and accruals	**217**	207
Amounts due to associates	**–**	25
	978	1,817

Notes to the Financial Statements

27 CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash generated from operations

	2016 RMB'million	2015 RMB'million
Profit before income tax	**383**	373
Adjustments for:		
Government grant	**(5)**	(2)
Bargain purchase arising from:		
(i) Business combinations; and	**(91)**	(204)
(ii) Acquisition of investments accounted for using equity method	**(112)**	(10)
Depreciation of property, plant and equipment	**301**	242
Fair value (gains)/losses on financial assets at fair value through profit or loss relating to:		
(i) Call options issued relating to acquisition of investments accounted for using equity method;	**(131)**	(121)
(ii) Guaranteed electricity output; and	**(220)**	76
(iii) Unlisted investment	**(212)**	–
Fair value gains on financial liabilities at fair value through profit or loss relating to:		
(i) Contingent consideration payables;	**(37)**	(159)
(ii) Put Option; and	**(21)**	(35)
(iii) Subsequent re-measurement on derivative portion of convertible bonds	**(68)**	(279)
Compensation interest income in respect of a terminated acquisition in 2015 (Note 6)	**(24)**	–
Finance income	**(9)**	(9)
Finance costs	**1,066**	638
Share of profits of investments accounted for using equity method	**(23)**	(4)
Gain on disposal of an associate	**–**	(33)
Share-based payment expenses (Note 7(a))	**7**	25
Operating profit before working capital changes	**804**	498
Changes in working capital		
Inventories	**1**	–
Financial assets at fair value through profit or loss	**36**	–
Other receivables, deposits and prepayments	**(167)**	10
Trade, bills and tariff adjustment receivables	**(122)**	(588)
Trade payable	**(90)**	89
Other payables and accruals	**(135)**	103
Net cash generated from operations	**327**	112

Notes to the Financial Statements

28 BUSINESS COMBINATION

The Group is principally engaged in the development, investment, operation and management of solar power plants. It is the Group's strategy to identify suitable investment opportunity to acquire solar power plants with good prospects and potential for stable returns. During the year, the Group has acquired several solar power plants with an aggregate installed capacity of 134.8MW in Yunnan, Xinjiang, Hebei and Shandong, the PRC. Details of each business combination is as follows:

(i) Yunnan projects

In January 2016, the Group completed the step-acquisition in Yongsheng, with installed capacity of 19.8MW, from 19.1% to 55.6% for cash consideration of approximately RMB20 million from an independent third party. Since then, Yongsheng ceased to be an associate and became a subsidiary of the Group.

This acquisition was part of the solar power energy initiative in relation to the concession rights acquired in CSPG in June 2013, an amount of approximately RMB10 million has been redesignated from intangible assets as part of investment cost (Note 14), and an amount of approximately RMB2 million has been recognised as deferred tax liabilities (Note 25) arising from fair value changes.

In July 2016, the Group completed a 100% equity interest in Yongren, with an installed capacity of 35MW, for cash consideration of approximately RMB37 million from an independent third party.

(ii) Xinjiang project

In April 2016, the Group completed the acquisition of a 100% equity interest in Wujiaqu, with an installed capacity of 20MW, for a cash consideration of RMB40 million from an affiliate of a substantial shareholder of the Company.

This acquisition was part of the solar power energy initiative in relation to the concession rights acquired in CSPG in June 2013, an amount of approximately RMB23 million has been redesignated from intangible assets as part of investment cost (Note 14), and an amount of approximately RMB5 million has been recognised as deferred tax liabilities (Note 25) arising from fair value changes.

(iii) Hebei project

In August 2016, the Group completed the acquisition of a 100% equity interest in Yangyuan Zhongjiu, with an installed capacity of 20MW, for a cash consideration of approximately RMB70 million from an independent third party.

(iv) Shandong project

In October 2016, the Group completed the acquisition of a 100% equity interest in Haiyang-Xin, with an installed capacity of 40MW, for a cash consideration of approximately RMB84 million from an independent third party.

Notes to the Financial Statements

28 BUSINESS COMBINATION (CONTINUED)

The above business combinations are individually immaterial but are material collectively to the Group, the aggregate financial information as at acquisition date is presented as follows:

	RMB'million
Consideration:	
Cash consideration	251
Redesignation of concession rights previously recognised	
– Intangible assets (Note 14)	33
– Deferred tax liabilities (Note 25)	(7)
Fair value of previously held interest (Note 16(a))	16
Total consideration	293
Recognised amounts of provisional fair value of identifiable assets acquired, liabilities assumed and non-controlling interests	
Property, plant and equipment (Note 13)	1,233
Value-added tax recoverable	114
Trade, bills and other receivables (Note (b))	141
Cash and cash equivalents	10
Other payables and accruals	(761)
Borrowings	(289)
Deferred tax liabilities (Note (c))	(30)
Total identifiable net assets	418
Non-controlling interests (Note (e))	(34)
Bargain purchase recognised in the consolidated statement of profit or loss (Note (d))	(91)
	293
Net cash outflow arising from the acquisitions	
Cash consideration	(251)
Less: Deposit for investments paid in prior year	40
Consideration payable	49
Cash and cash equivalents acquired	10
	(152)

Notes to the Financial Statements

28 BUSINESS COMBINATION (CONTINUED)

Notes:

(a) Revenue and profit contribution

The revenue and tariff adjustment and the profit included in the consolidated statement of profit or loss since acquisition date contributed by those business combinations occurred during the year are approximately RMB66 million and RMB16 million respectively.

Had the consolidation taken place at 1 January 2016, the consolidated statement of profit or loss would show pro-forma revenue on sales of electricity and tariff adjustment of approximately RMB1,080 million and profit of RMB424 million.

(b) Acquired receivables

The fair values of trade, bills and other receivables acquired were approximately RMB141 million.

The gross contractual amount for trade receivables due in aggregate was RMB68 million, of which no balance was expected to be uncollectible.

(c) Provisional fair value of acquired identifiable assets

The fair value of the acquired identifiable assets was provisional pending receipt of the final valuations for those assets. Deferred tax liabilities of approximately RMB30 million (Note 25) have been provided in relation to these fair value adjustments.

(d) Bargain purchase on business combinations

The main reason giving rise to the bargain purchase was the fact that the discounted cash flow for a period of the useful lives of solar power plants exceeded the total consideration paid and payable.

(e) Non-controlling interests

The non-controlling interests were recognised at their proportionate share of the recognised amounts of acquirees' identifiable net assets.

Notes to the Financial Statements

29 COMMITMENTS

(a) Capital commitments

As at 31 December 2016, the Group had no significant capital commitment (2015: RMB690 million in respect of property, plant and equipment contracted).

(b) Commitments under operating leases

As at 31 December 2016 and 2015, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises, staff quarters and warehouses as follows:

	2016 RMB'million	2015 RMB'million
Within one year	**13**	7
After one year but within five years	**32**	11
Over five years	**70**	1
	115	19

30 RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

Other than those balances and transactions disclosed elsewhere in this consolidated financial statements, no significant related party transactions between the Group and its related parties were occurred during the year.

(b) Key management compensation

	2016 RMB'million	2015 RMB'million
Short-term employee benefits	**11**	5
Share-based payment	**2**	4
	13	9

Notes to the Financial Statements

31 EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

(a) Issue of Senior Notes

In January and February 2017, the Company issued an aggregate of US$350 million (equivalent to approximately RMB2.41 billion) Senior Notes mainly for early redemption of certain convertible bonds, repayment of existing indebtedness and working capital purposes.

(b) Acquisition of subsidiaries

(i) In January 2017, the Group completed the acquisition of 100% equity interest in a project company which owns 6 solar power plants with aggregate installed capacity of 82.4MW in the United Kingdom, at a maximum cash consideration of GBP30.1 million (equivalent to approximately RMB260 million) which is subject to the performance-based contingent consideration payments of GBP3 million based on the volume of electricity output for a period of 5 years commencing from 1 October 2016.

(ii) In February 2017, the Group completed the acquisition of 100% equity interest in a project company which owns a grid-connected solar power plant with an aggregate installed capacity of 17.29MW located in Hebei Province, the PRC for a total consideration of approximately RMB169 million.

(c) Self-construction of Datong Panda 50MW

In February 2017, the Group entered into EPC contracts with the contractors for the development and construction of the Group's Datong Panda Solar Power Plant Project with an aggregate installed capacity of 50MW located in Datong, Shanxi province, the PRC, at a total consideration of approximately RMB369 million.

(d) Completion of equity financing by allotment and issue of shares and warrants

In March 2017, the Company has successfully completed the allotment and issue of shares and warrants to CMNEG, NEX, ORIX Asia Capital Limited ("ORIX") and a subsidiary of Asia Climate Partners LP. An aggregate of 2,232,978,962 subscription shares and 871,075,858 warrants have been allotted and issued. The price of each subscription share is HK$0.5814 while the price for each warrant issue is HK$0.000775. The gross and net proceeds from this share and warrant subscriptions is approximately HK$1,299 million (approximately to RMB1,154 million) and HK$1,259 million (approximately to RMB1,119 million), respectively.

(e) Redemption of certain convertible bonds before maturity

In March 2017, the Company has redeemed certain convertible bonds held by CMNEG and NEX (part of 3rd batch convertible bonds) and the 4th batch convertible bonds at amount (including principal, accrued interests and redemption premium, if any) of approximately HK$440 million (equivalent to RMB391 million), HK$33 million (equivalent to RMB29 million) and US$35.9 million (equivalent to RMB247 million) respectively.

Notes to the Financial Statements

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	31 December 2016 RMB'million	31 December 2015 RMB'million
ASSETS		
Non-current assets		
Interests in subsidiaries	**1,306**	1,242
	1,306	1,242
Current assets		
Other receivables, deposits and prepayments	**4**	424
Amounts due from subsidiaries	**4,213**	3,748
Restricted cash	**–**	20
Cash and cash equivalents	**140**	1
	4,357	4,193
Total assets	**5,663**	5,435
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Company		
Share capital	**402**	386
Reserves (Note (a))	**1,094**	1,444
Total equity	**1,496**	1,830
LIABILITIES		
Non-current liabilities		
Convertible bonds	**3,154**	1,987
Contingent consideration payables	**–**	581
Cash-settled share-based payment	**–**	24
Bank and other borrowings	**927**	64
	4,081	2,656
Current liabilities		
Other payables and accruals	**70**	4
Convertible bonds	**–**	924
Other borrowings	**16**	–
Other financial liability at fair value through profit or loss	**–**	21
	86	949
Total liabilities	**4,167**	3,605
Total equity and liabilities	**5,663**	5,435

The statement of financial position of the Company was approved by the Board of Directors on 30 March 2017 and was signed on its behalf

Mr. Li, Alan
Director

Mr. Li Hong
Director

Notes to the Financial Statements

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note:

(a) Reserve movement of the Company

	Share premium RMB'million	Share-based payment reserve RMB'million	Shares held under EIS RMB'million	Convertible bonds equity reserve RMB'million	Contributed surplus (Note) RMB'million	Translation reserve RMB'million	Other reserve RMB'million	Accumulated losses RMB'million	Total RMB'million
Balance at 1 January 2015	4,235	100	(54)	108	34	(91)	–	(3,445)	887
Comprehensive income									
Profit for the year	–	–	–	–	–	–	–	18	18
Other comprehensive income	–	–	–	–	–	127	–	–	127
Total comprehensive income	–	–	–	–	–	127	–	18	145
Issue of shares through placement	270	–	–	–	–	–	–	–	270
Issue of convertible bonds	–	–	–	114	–	–	–	–	114
Share-based payment	–	19	–	–	–	–	–	–	19
Transaction with non-controlling interests	6	–	–	–	–	–	3	–	9
Total transactions with owners, recognised directly in equity	276	19	–	114	–	–	3	–	412
Balance at 31 December 2015	4,511	119	(54)	222	34	36	3	(3,427)	1,444

Notes to the Financial Statements

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note: (Continued)

(a) Reserve movement of the Company (Continued)

	Share premium RMB'million	Share-based payment reserve RMB'million	Shares held under EIS RMB'million	Convertible bonds equity reserve RMB'million	Contributed surplus (Note) RMB'million	Translation reserve RMB'million	Other reserve RMB'million	Accumulated losses RMB'million	Total RMB'million
Balance at 1 January 2016	4,511	119	(54)	222	34	36	3	(3,427)	1,444
Comprehensive loss									
Loss for the year	–	–	–	–	–	–	–	(552)	(552)
Other comprehensive income	–	–	–	–	–	67	–	–	67
Total comprehensive income/(loss)	–	–	–	–	–	67	–	(552)	(485)
Issue of shares through placement (Note 21 (a))	44	–	–	–	–	–	–	–	44
Issue of shares on conversion of convertible bonds (Note 23)	44	24	(19)	(2)	–	–	–	–	47
Transaction with a non-controlling interest (Note 15(c))	3	–	–	–	–	–	(3)	–	–
Reclassification from contingent consideration payables to convertible bonds (Note 24)	–	–	–	37	–	–	–	–	37
Share-based payment (Note 21(b))	–	7	–	–	–	–	–	–	7
Total transactions with owners, recognised directly in equity	91	31	(19)	35	–	–	(3)	–	135
Balance at 31 December 2016	4,602	150	(73)	257	34	103	–	(3,979)	1,094

The contributed surplus of the Company represented the difference between the nominal value of the share capital issued by the Company and the underlying net assets of subsidiaries which were acquired by the Company pursuant to a group reorganisation during the year ended 31 March 2000.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders of the Company. However, a company cannot declare or pay dividends, or make a distribution out of contributed surplus, if: (1) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (2) the realisable value of the Company's assets would thereby be less than the aggregate of its issued share capital and share premium accounts.

Five-year Financial Summary

A summary of the results, assets and liabilities of the Group for the last five financial years is set out below:

	For the year ended 31 December				
Results	**2016**	2015	2014	2013	2012
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Sales of electricity	**261**	175	124	11	–
Tariff adjustment	**737**	456	255	19	–
	998	631	379	30	–
EBITDA	**841**	480	277	(88)	–
Profit/(loss) for the year:					
– From continuing operations	**382**	373	499	(1,737)	–
– From discontinued operations	**–**	–	(239)	(89)	(664)
	382	373	260	(1,826)	(664)

	As at 31 December				
Assets and liabilities	**2016**	2015	2014	2013	2012
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Total assets	**17,181**	12,969	7,168	4,711	1,302
Total liabilities	**(14,578)**	(10,739)	(5,684)	(4,354)	(1,120)
	2,603	2,230	1,484	357	182

Information for Investors

ANNOUNCEMENT OF ANNUAL RESULTS

30 March 2017

ANNUAL GENERAL MEETING

26 May 2017

INFORMATION ABOUT SHARES

Board Lot: 2,000 shares
Issued Shares as at 31 December 2016: 4,944,310,325 shares
Issued Shares as at 30 March 2017: 7,177,289,287 shares

STOCK CODE

Hong Kong Stock Exchange: 00686
Bloomberg: 686 HK
Reuters: 0686.HK

INVESTOR RELATIONS CONTACTS

Telephone: +852 3112 8461
Fax: +852 3112 8410
Email: ird@unitedpvgroup.com
Address: Unit 1012, 10/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong

Wechat Public Account: unitedpvgroup
Wechat Public Account QR Code:

UNITED PHOTOVOLTAICS

UNITED PHOTOVOLTAICS GROUP LIMITED

Unit 1012, 10/F, West Tower, Shun Tak Centre
168-200 Connaught Road Central, Hong Kong
www.unitedpvgroup.com

FSC www.fsc.org
MIX
Paper from responsible sources
FSC™ C021898