THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares of Puxing Energy Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

PUXING ENERGY LIMITED
普星能量有限公司

(Formerly known as "Puxing Clean Energy Limited 普星潔能有限公司")

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 90)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition

Donvex 富域資本

Donvex Capital Limited
富域資本有限公司

Capitalised terms used in this cover shall have the same meaning as those defined in this circular.

A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee to the Independent Shareholders in relation to the terms of the Acquisition is set out on pages 19 to 20 of this circular.

A notice convening the EGM to be held at Kowloon Room I, Mezzanine Floor, Kowloon Shangri-La, 64 Mody Road, Kowloon, Hong Kong, on Thursday, 30 July 2020 at 10:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

In order to prevent and control the spread of the Novel Coronavirus (COVID-19), the following measures will be taken at the EGM:

- temperature checks for attendees
- attendees are required to wear surgical masks
- no distribution of corporate gift or refreshment

Shareholders are reminded that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

24 June 2020

CONTENTS

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

"Acquisition"	the acquisition of 100% of the equity interests in the Target Company by the Purchaser from the Vendor pursuant to the Share Purchase Agreement
"Articles of Association"	Articles of Association of the Company, as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day other than Saturday, Sunday and a public holiday in the PRC or Hong Kong
"Company"	Puxing Energy Limited (formerly known as "Puxing Clean Energy Limited"), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 90)
"Completion"	means (i) the completion of the transfer of all 100% equity interests in the Target Company to the Purchaser; and (ii) the completion of the transfer of all documents pursuant as outlined in the section headed "(2) Share Purchase Agreement – (vii) Completion" in the "Letter from the Board" contained in this circular
"Completion Audit Report"	means the unqualified audit report of the Target Company's financial statements as at the Completion Reference Date issued by a PRC certified public accountants designated by the Purchaser in accordance with the PRC GAAP
"Completion Date"	the date of the Completion
"Completion Reference Date"	means the last day of the natural month preceding the month of which the Completion Date falls on
"connected person"	has the meaning ascribed to it under the Listing Rules

"Consideration"	the consideration in the amount of RMB333,398,965.29 (subject to adjustment) payable by the Purchaser to the Vendor for the Acquisition under the Share Purchase Agreement
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened on 30 July 2020 (or any adjournment thereof) to consider and, if thought fit, approve, among other things, the Share Purchase Agreement and the transaction contemplated thereunder
"Enlarged Group"	the Group and the Target Company
"Finance Services Agreement"	the financial services framework agreement entered into between the Company and Wanxiang Finance on 22 January 2020
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	a committee of the Board comprising Mr. Tse Chi Man, Mr. Yao Xianguo and Mr. Yu Wayne W., being all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the Share Purchase Agreement and the transaction contemplated thereunder
"Independent Financial Advisor"	Donvex Capital Limited (富域資本有限公司), a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the transaction contemplated thereunder
"Independent Shareholders"	Shareholders who are not required to abstain from voting at the EGM

"Latest Practicable Date"	19 June 2020, being the latest practicable date for the purpose of ascertaining information contained in this circular before its despatch
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Lu"	Mr. Lu Weiding (魯偉鼎先生), the ultimate Controlling Shareholder
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC GAAP"	generally accepted accounting principles in the PRC
"Purchaser"	Zhejiang Puxing Deneng Natural Gas Power Co., Ltd.* (浙江普星德能然氣發電有限公司), a sino-foreign equity joint venture enterprise established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Puxing International"	Puxing International Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and the wholly-owned subsidiary of the Vendor
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares from time to time
"Share Purchase Agreement"	the share purchase agreement dated 6 May 2020 entered into between the Purchaser and the Vendor in relation to the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target Company"	Quzhou Puxing Gas Turbine Thermal Power Co., Ltd.* (衢州普星燃機熱電有限公司), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Vendor
"Vendor"	Shanghai Pu-Xing Energy Limited* (普星聚能股份公司), a company established under the laws of the PRC with limited liability, and the Controlling Shareholder indirectly interested in approximately 65.42% of the issued share capital of the Company as at the Latest Practicable Date
"Wanxiang Finance"	Wanxiang Finance Co., Ltd.* (萬向財務有限公司), a company established in the PRC and a connected person of the Company
"%"	per cent

References to time and dates in this circular are to Hong Kong time and dates.

* *For identification purposes only*

PUXING ENERGY LIMITED
普 星 能 量 有 限 公 司

(Formerly known as "Puxing Clean Energy Limited 普星潔能有限公司")
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 90)

Executive Directors:
Mr. Wei Junyong *(Chairman)*
Mr. Gu Genyong

Independent Non-Executive Directors
Mr. Tse Chi Man
Mr. Yao Xianguo
Mr. Yu Wayne W.

Registered address:
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Room 706, 7/F., Albion Plaza
2-6 Granville Road
Tsim Sha Tsui, Kowloon
Hong Kong

24 June 2020

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 6 May 2020 (the "**Announcement**") in relation to the Share Purchase Agreement.

The purpose of this circular is to provide you with, *inter alia*, (i) further information on the Share Purchase Agreement; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Share Purchase Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its recommendation in respect of the terms of the Share Purchase Agreement; (iv) financial information of the Group; (v) financial information of the Target Company; (vi) unaudited pro forma financial information of the Enlarged Group upon completion of the Acquisition; (vii) the valuation report of the major generator equipment owned by the Target Company; (viii) the notice of EGM; and (ix) other information as required under the Listing Rules.

II. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

(1) Background

As announced in the Announcement, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with the Vendor on 6 May 2020 (after trading hours), pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company at the Consideration of RMB333,398,965.29 (subject to adjustment), subject to the terms and conditions of the Share Purchase Agreement.

(2) Share Purchase Agreement

The principal terms of the Share Purchase Agreement are set out below.

(i) Date

6 May 2020 (after trading hours)

(ii) Parties

(a) the Purchaser; and

(b) the Vendor.

(iii) Subject Matter

Pursuant to the Share Purchase Agreement, the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company, subject to terms and conditions of the Share Purchase Agreement.

The Target Company is a company established under the laws of the PRC with limited liability on 30 November 2011 with a paid-up capital of RMB300,000,000 and is a wholly-owned subsidiary of the Vendor.

(iv) Consideration

The Consideration for the Acquisition is RMB333,398,965.29 (subject to adjustment), which was determined after arm's length negotiations between the Purchaser and Vendor on normal commercial terms with reference to a number of factors, including (i) the historical financial performance of the Target Company for the three years ended 31 December 2019 prepared in accordance with the PRC GAAP; (ii) the unaudited net asset value of the Target Company as at 31 March 2020 prepared in accordance with the PRC GAAP of RMB415,704,820.39; (iii) the accumulated undistributed profit of the Target Company as at 31 December 2019 of RMB82,305,855.10 prepared in accordance with the PRC GAAP (the "**Undistributed Profit**"); (iv) the condition of the generating units and equipment owned by the Target Company; (v) the business development and prospects of the Target Company; and (vi) the benefits of the Acquisition as set out in the section headed "(3) Reasons for and benefits of the Acquisition" below.

The parties to the Share Purchase Agreement agreed to adjust the final amount of the Consideration based on the net asset value in the Completion Audit Report issued within 30 days after the Completion Date, minus the Undistributed Profit (the "**Adjusted Consideration**"). The Adjusted Consideration so determined in accordance with the aforementioned Completion Audit Report is binding on all parties to the Share Purchase Agreement, and the Vendor and the Purchaser shall adjust the Consideration to be paid by the Purchaser based on the Adjusted Consideration.

Taking into account (i) the Consideration being equivalent to the unaudited net asset value of the Target Company as at 31 March 2020 prepared in accordance with the PRC GAAP less the Undistributed Profit; (ii) the historical financial performance of the Target Company prepared in accordance with the PRC GAAP for the three years ended 31 December 2019; and (iii) the condition of the generating units and equipment owned by the Target Company, and based on the knowledge and experience of the relevant Directors and management of the Company in the energy supply and related businesses in the PRC, the Board is of the view that no independent valuation on the assets and business of the Target Company was necessary for determining the Consideration.

The Consideration will be financed by (i) the internal resources of the Group, including cash flows generating from operating activities of the Group from time to time; and (ii) other debt financing to be determined by the Company from time to time when necessary.

The Company's ongoing liquidity will be supported by the credit facility of up to RMB300,000,000 provided by Wanxiang Finance to the Group during the term of the Financial Services Agreement. For details, please refer to the Company's circular dated 21 February 2020. In addition, a further credit facility of RMB90,000,000 was granted by Wanxiang Finance to the Purchaser in April 2020, of which a drawdown of RMB46,000,000 was made in May 2020. Such drawdown provides sufficient funds to the Purchaser for settling the First Payment (as defined below). Furthermore, the Company will also consider restructuring its debt profile through negotiating with its holding companies to extend the repayment dates of all or part of the relevant outstanding loans in order to enhance its liquidity as and when necessary. As at the Latest Practicable Date, the Vendor has unconditionally consented to extend an aggregate outstanding borrowing of RMB207,431,000 as at 31 December 2019 for a period of not less than one year upon the request of the Group.

(v) Payment of the Consideration

The Purchaser shall pay the Vendor RMB50,000,000 within ten (10) Business Days from the Completion Date (the "**First Payment**").

Upon the issuance of the Completion Audit Report, the Purchaser shall pay the Vendor all outstanding Consideration (the "**Outstanding Payment**") in accordance with the following equation:

Outstanding Payment = Adjusted Consideration – First Payment

Upon issuance of the Completion Audit Report, the Outstanding Payment shall be payable by the Purchaser in three instalments in the following manners together with the relevant interests on such payments incurred from the issuance date of the Completion Audit Report to the actual payment date at fixed interest rate of 5% per annum:

(a) on the first anniversary of the issuance date of the Completion Audit Report, the Purchaser shall pay the Vendor RMB100,000,000 (the "**First Outstanding Payment**") and the relevant interests;

(b) on the second anniversary of the issuance date of the Completion Audit Report, the Purchaser shall pay the Vendor RMB100,000,000 (the "**Second Outstanding Payment**") and the relevant interests;

(c) on the third anniversary of the issuance date of the Completion Audit Report, the Purchaser shall pay the Vendor the remainder of the Outstanding Payment (the "**Remainder of Outstanding Payment**") and the relevant interests in accordance with the following equation:

Remainder of Outstanding Payment = Outstanding Payment – (First Outstanding Payment + Second Outstanding Payment)

The Purchaser has the right to pay the Vendor the Outstanding Payment in advance of the instalment payment schedule set out above. The Purchaser shall notify the Vendor in writing before making such advanced payments. Each advanced payment paid by the Purchaser shall not be less than RMB10,000,000, and the Purchaser shall also pay the interests corresponding to such advanced payments.

(vi) Conditions precedent

Completion is conditional upon the satisfaction of or full or partial waiver (except condition (c) below) of, the following conditions precedent on or before the Completion Date in accordance with the terms of the Share Purchase Agreement:

(a) the representations and warranties made by the Purchaser and the Vendor under the Share Purchase Agreement shall be true, accurate and complete in all respects on the Completion Date;

(b) the Purchaser and Vendor shall have fulfilled and complied with all the agreements, commitments, obligations and conditions contained in the Share Purchase Agreement which shall be performed or complied with on or before the Completion Date;

(c) all consents required by the Acquisition (including but not limited to the consent of relevant government departments, internal approvals of the Target Company and consents of third parties) shall have been duly obtained by the Vendor and the Target Company and continue to be fully valid, and all consents required by the Acquisition, including but not limited to the passing of the relevant resolutions during a duly convened extraordinary general meeting of the Company in relation to the very substantial acquisition and connected transaction (as defined under the Listing Rules) in relation to the Acquisition and (if applicable) consents of other relevant government departments, the Stock Exchange, third parties and internal permissions of the Company shall have been duly obtained by the Purchaser and continue to be fully valid;

(d) the Purchaser has completed the due diligence review (including but not limited to the legal affairs, financials, tax affairs, assets, debt, operation and business conditions of the Target Company) and the Purchaser has been satisfied with the results of such due diligence review;

(e) no material adverse impact has occurred and there is no reasonable indication that any material adverse impact will occur;

(f) no one has threatened to bring, has already filed or has been pending to file a claim to attempt to impose any restrictions on the Completion of the Acquisition;

(g) there are no claims from any government department or any law that proposes, promulgates, implements, issues, or is deemed to be applicable to the Acquisition or any changes to current law that, based on reasonable judgment, would directly or indirectly restrict the Completion of the Acquisition in any material respect;

(h) the Target Company has completed the registration and filed the transfer of its equity interest at the industrial and commercial department (the "**Equity Transfer**") (for the avoidance of doubt, before the completion of the Equity Transfer, all interests of the equity interest of the Target Company belongs to the Vendor and after the completion of the Equity Transfer, all interests of the equity interest belong to the Purchaser);

(i) the international certified public accountants have audited the financial statements of the Target Company prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board for each of the years ended 31 December 2017, 2018 and 2019 without modified audit opinion; and

(j) all agreements, contracts, instruments, memoranda, certificates or other documents signed or related to the Acquisition have been (if applicable) duly signed by the Vendor and in force.

Save and except for condition (c) above, all other conditions may be waived by the Purchaser in writing at its discretion. The above condition (c) shall not be waivable at all times.

As at the Latest Practicable Date, save for condition (j) above, none of the above conditions precedent has been satisfied.

(vii) Completion

Completion shall take place within ten (10) Business Days after all the conditions precedent (except those that are waived) are satisfied or such other day as the parties to the Share Purchase Agreement may agree in writing.

Before or upon Completion, the Vendor shall or cause the Target Company to deliver the following documents to the Purchaser:

(a) the shareholders' resolutions of the Vendor approving the Acquisition and amendment of articles of association of the Target Company, duly signed by the Vendor, and, as may be required by the articles of association of the Target Company, all duly signed internal documents of the Target Company required for the purposes of approving the Acquisition;

(b) written documents regarding the designation of relevant account(s) as the account(s) to accept the Consideration and/or other relevant payments under the Share Purchase Agreement and specific information of such account(s);

(c) the new business licence and the copy of the full set of documents issued by Quzhou City Kecheng District Market Supervision and Administration Bureau*（衢州市柯城區市場監督管理局）regarding the Acquisition (and the Vendor having confirmed in writing that such documents are completely consistent with the originals actually submitted to Quzhou City Kecheng District Market Supervision and Administration Bureau*（衢州市柯城區市場監督管理局））;

(d) all assets, documents and materials of the Target Company including but not limited to official seals and other seals, account books, receipts, archives, contracts, invoices, licenses, property certificates, electronic information, business qualifications, governmental project approvals or permits have been transferred to person designated by the Purchaser (if applicable), and the Purchaser and the Vendor having signed a handover list. Such handover list shall also include a list of all the Target Company's real estate and equipment that worth more than RMB100,000, a list of the Target Company's employees and all other information that the Purchaser believes should be listed; and

(e) a certificate signed by the Vendor in accordance with the format and content of annex B to the Share Purchase Agreement to confirm that all conditions precedent pertaining to the Vendor as set out in the section headed "(2) Share Purchase Agreement – (vi) Conditions Precedent" above have been satisfied.

Before or upon Completion, the Purchaser shall transfer to the Vendor a certificate signed by the Purchaser in the format and content set out in the Share Purchase Agreement to confirm that all conditions precedent pertaining to the Purchaser as set out in the section headed "(2) Share Purchase Agreement – (vi) Conditions Precedent" above have been satisfied.

* *For identification purpose only*

(viii) Termination

At any time, the Share Purchase Agreement may be terminated and the Acquisition may be aborted:

(a) unless the Vendor and the Purchaser agree otherwise, if Completion does not take place before 30 September 2020, either the Vendor or the Purchaser shall serve a written notice to the other party; or

(b) with the written consent of the Vendor and the Purchaser.

If the following occurs, any party has the right to, pursuant to an independent and prudent decision, terminate the Share Purchase Agreement with immediate effect by notifying the other party in writing, free of any responsibility under the Share Purchase Agreement:

(a) either party to the Share Purchase Agreement fails to complete, abide by, or perform its obligations, commitments, or guarantees under the Share Purchase Agreement in a timely and effective manner, and as a result such obligation, commitment or guarantee cannot be fulfilled before the Completion Date by reasonable judgement; or

(b) statements or warranties made by either party to the Share Purchase Agreement are untrue, inaccurate, incomplete or misleading, or any such statements or warranties will apparently become untrue, inaccurate, incomplete or misleading, or the occurrence of any event or circumstance that causes or will cause any statement or warranty made by either party to the Share Purchase Agreement untrue, inaccurate, incomplete or misleading.

If the Share Purchase Agreement is terminated in accordance with the above provisions, the Share Purchase Agreement will no longer be valid, but the parties to the Share Purchase Agreement shall not be exempted from their respective breaches of the Share Purchase Agreement or any liability arising out from any misrepresentation under the Share Purchase Agreement, and such termination shall not be regarded as a waiver of any remedy (including specific performance, if awarded) for any such breach or misrepresentation.

If the Share Purchase Agreement is terminated in accordance with the above provisions or any applicable law, the parties to the Share Purchase Agreement shall use their respective reasonable efforts to restore any actions and effects produced by the parties to complete the Acquisition to the status before the parties entered into the Share Purchase Agreement (including but not limited to further registration and filing procedures regarding the filings to the industrial and commercial department regarding the transfer of the Target Company's shares).

(3) Reasons for and benefits of the Acquisition

The Group is principally engaged in the development, operation and management of natural gas-fired power plants in the PRC. Building on its clean energy business, the Group has been actively searching for potential acquisition targets to expand its installed capacity and heating business, which would facilitate the achievement of the strategic objectives of the Group and maximise returns to Shareholders.

As at the Latest Practicable Date, the Group owns and operates four natural gas-fired power plants located in Zhejiang province, the PRC with a total installed capacity of approximately 458MW (including approximately 578kW photovoltaic power generating units) and a heating capacity of approximately 160 tons/hour. For the year ended 31 December 2017, 2018 and 2019, the Group's production volume by natural gas was 291,310MWh (equivalent to approximately 637.5 hours of full load power generation), 88,505MWh (equivalent to approximately 193.7 hours of full load power generation) and 84,015MWh (equivalent to approximately 183.8 hours of full load power generation), respectively. The Target Company owns and operates a natural gas-fired power plant with installed capacity of approximately 230MW (including approximately 153kW photovoltaic power generating units) and a maximum heating capacity of approximately 200 tons/hour. The power plant operated by the Target Company is a peaking power plant which had been responsible for acting in accordance with the instructions of the relevant government authorities in Zhejiang Province to generate extra power when the power grid managed by the relevant government authorities in Zhejiang Province reached maximum demand. It is expected that the plant will supply steam to the users locating in proximity of its heating pipelines. The sole customer of the Target Company is Zhejiang Province Electric Power Grid Corporation (浙江省電網公司) and the serving area of the Target Company is Quzhou City. The Target Company uses natural gas as fuel for power generation. Natural gas is the only source of fuel for the Target Company and is provided by Zhejiang Province Natural Gas Development Company, the sole supplier of the Target Company and in Zhejiang Province. The advanced power generating units and equipment owned by the Target Company enable the Target Company to generate power and heat more efficiently and effectively as they consume less fuel as compared to the power generating units and equipment of the Group, and result in a better financial performance. As at the Latest Practicable Date, the average age of power generating units and equipment owned by the Target Company is approximately 5.5 years and remaining useful lives of these power generating units and equipment are approximately 19.5 to 24.5 years. In view of that the Target Company operates its power plant by serving an area totally different to the Group's serving areas, the Acquisition will therefore enable the Group to further expand its business coverage in Zhejiang Province from the existing Hangzhou City and Huzhou City to Quzhou City after completion of the Acquisition. For the three years ended 31 December 2019, profit after taxation of the Target Company as prepared in accordance with the PRC GAAP represented approximately 106%, 89% and 93% of the profit attributable to the equity Shareholders. Therefore, the Board is of the view that the Acquisition presents a unique opportunity for the Group to further strengthen its presence and operations in Zhejiang province, the PRC, and to enhance its business performance by further expanding its installed capacity and heating capacity.

As disclosed in the section headed "(2) Share Purchase Agreement – (iv) Consideration" above, the Board has taken into account a number of factors in determining the Consideration. The Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The terms of the Share Purchase Agreement were agreed at after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors who has expressed their views after considering the advice from the Independent Financial Adviser in the section headed "Letter from the Independent Board Committee") consider that the terms of the Share Purchase Agreement and the transaction contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

(4) Implications under the Listing Rules

As one of the applicable percentage ratios set out in the Listing Rules in respect of the Share Purchase Agreement and the transaction contemplated thereunder exceeds 100%, the Share Purchase Agreement and the transaction contemplated thereunder constitute a very substantial acquisition of the Company which is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Vendor is the Controlling Shareholder indirectly interested in 300,000,000 Shares (representing approximately 65.42% of the issued share capital of the Company as at the Latest Practicable Date) and is therefore a connected person of the Company. Accordingly, the Share Purchase Agreement and the transaction contemplated thereunder constitute a connected transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wei Junyong had declared to the Board of his concurrent title as a director and the president of the Vendor and a director of the Target Company. He had absented himself from the relevant Board meeting and abstained from voting in respect of the resolutions approving the Share Purchase Agreement and the transaction contemplated thereunder. Save as disclosed above, none of the other Directors was considered having a material interest in the Share Purchase Agreement and the transaction contemplated thereunder and was required to abstain from voting in respect of the resolutions approving such transaction.

The Vendor, being a connected person of the Company, is considered to have a material interest in the Share Purchase Agreement and the transaction contemplated thereunder. Therefore, Puxing International and its associates will be required to abstain from voting on the resolution in relation to the Share Purchase Agreement and the transaction contemplated thereunder.

Save as abovementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable inquiries, as at the Latest Practicable Date, other than Puxing International which held 300,000,000 Shares (representing approximately 65.42% of the issued share capital of the Company), no other Shareholder is required to abstain from voting at the EGM for the relevant resolution.

(5) Information on the parties

The Group

The Group is principally engaged in the development, operation and management of natural gas-fired power plants.

The Purchaser

The Purchaser is a sino-foreign equity joint venture enterprise established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in in natural gas power generation and on-grid sales; production and sales of supporting mechanical and electrical equipment; sales of waste heat hot water production; and development, operation, maintenance and technical services of auxiliary services for power grids.

The Vendor

The Vendor is a company established under the laws of the PRC with limited liability, which is principally engaged in technology development, technical services, consulting, technology transfer of clean energy and energy technology; investment in the wind power industry; business management consulting; wind power project management consulting; installation and sales of wind power equipment and energy equipment; import and export of goods and technologies; contract energy management; and investment management. The Vendor is the Controlling Shareholder indirectly interested in approximately 65.42% of the issued share capital of the Company as at the Latest Practicable Date.

The Target Company

The Target Company is a company established under the laws of the PRC with limited liability on 30 November 2011 with a paid-up capital of RMB300,000,000 and a wholly-owned subsidiary of the Vendor. It is principally engaged in thermal power technology research and development; gas turbine thermal power project investment, operation maintenance, technical services; heating services; power generation business and photovoltaic power generation project investment and development. The Target Company has an installed capacity of approximately 230MW (including approximately 153kW photovoltaic power generating units) and a maximum heating capacity of approximately 200 tons/hour.

As disclosed in the financial information of the Target Company as set out in Appendix II to this circular, the net book value of the major generator equipment owned by the Target Company amounted to RMB499,961,000 as at 31 December 2019, represented approximately 64% of the total assets of the Target Company. The Company has engaged Roma Appraisals Limited, an independent valuer, to conduct a valuation on the major generator equipment as at 31 December 2019 by using cost approach. Full report from Roma Appraisals Limited is set out in Appendix VI to this circular. According to the valuation report, the value of the major generator equipment as at 31 December 2019 was RMB520,000,000.

To the best knowledge of the Board, the Group, the Vendor, the Purchaser and the Target Company are ultimately controlled by Mr. Lu.

Financial information of the Target Company

Please refer to the financial information of the Target Company as set out in Appendix II to this circular.

(6) Financial effect of the Acquisition

Earnings

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, if, for illustration purpose only, the Acquisition had taken place as at 1 January 2019, the effect of the Acquisition is that the profit attributable to the equity Shareholders for the year ended 31 December 2019 would have increased by approximately RMB34,638,000 from approximately RMB54,854,000 to approximately RMB89,492,000.

Assets

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, if, for illustration purpose only, the Acquisition had taken place as at 31 December 2019, the effect of the Acquisition is that the total assets of the Group as at 31 December 2019 would have increased by approximately RMB779,358,000 from approximately RMB1,170,621,000 to RMB1,949,979,000.

Liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, if, for illustration purpose only, the Acquisition had taken place as at 31 December 2019, the effect of the Acquisition is that the total liabilities of the Group as at 31 December 2019 would have increased by approximately RMB790,018,000 from approximately RMB593,958,000 to RMB1,383,976,000.

For details of the financial effects of the Acquisition together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information of the Enlarged Group, please refer to the unaudited pro forma financial information of the Enlarged Group as set out, for illustration purpose only, in Appendix III to this circular.

III. EGM AND PROXY ARRANGEMENT

A notice convening the EGM to be held at Kowloon Room I, Mezzanine Floor, Kowloon Shangri-La, 64 Mody Road, Kowloon, Hong Kong on Thursday, 30 July 2020 at 10:30 a.m. is set out on pages EGM-1 to EGM-3 of this circular. At the EGM, an ordinary resolution will be proposed for the approval of the Acquisition.

A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than forty-eight (48) hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

Pursuant to rule 13.39(4) of the Listing Rules, all votes of the Shareholders to be taken at the EGM shall be taken by a poll. Therefore, the chairman of the EGM will demand a poll for the ordinary resolution to be put forward at the EGM pursuant to article 66 of the Articles of Association. The results of the poll will be published on the websites of the Stock Exchange and the Company as soon as possible after the EGM in accordance with rule 13.39(5) of the Listing Rules.

IV. CLOSURE OF REGISTER OF SHAREHOLDERS

The register of members of the Company will be closed for registration of transfer of Shares from Monday, 27 July 2020 to Thursday, 30 July 2020 (both days inclusive), for the purpose of determining Shareholders' entitlement to attend and vote at the EGM, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Friday, 24 July 2020.

V. RECOMMENDATION

Having considered the reasons set out in the section headed "II. Very substantial acquisition and connected transaction", the Directors (including the independent non-executive Directors), having considered the advice of the Independent Financial Adviser, are of the opinion that while the Acquisition is not in the ordinary and usual course of business of the Company, the terms of the Acquisition are fair and reasonable, on normal commercial terms or better to the Group, and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution regarding the same.

The Independent Board Committee has been established by the Company to consider the terms of the Share Purchase Agreement and the transaction contemplated thereunder, and to advise the Independent Shareholders as to whether the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been engaged to advise the Independent Board Committee and the Independent Shareholders in this respect. Your attention is drawn to (i) the letter setting out the advice from the Independent Board Committee to the Independent Shareholders, and (ii) the letter of advice from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition, which are set out in this circular.

VI. FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Puxing Energy Limited
WEI Junyong
Chairman

The following is the letter from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Share Purchase Agreement, which has been prepared for the purpose of inclusion in this circular.

PUXING ENERGY LIMITED
普 星 能 量 有 限 公 司

(Formerly known as "Puxing Clean Energy Limited 普星潔能有限公司")
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 90)

24 June 2020

To the Independent Shareholders of Puxing Energy Limited

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to the circular of the Company dated 24 June 2020 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders of Puxing Energy Limited to consider the Acquisition, details of which are set out in the section headed "II. Very substantial acquisition and connected transaction" in the "Letter from the Board" contained in the Circular.

Your attention is drawn to the "Letter from the Board", the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition as set out in the "Letter from the Independent Financial Adviser" as well as other additional information set out in other parts of the Circular.

RECOMMENDATION

Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider that while the Acquisition is not in the ordinary and usual course of business of the Company, the terms of the Acquisition are fair and reasonable, on normal commercial terms or better to the Group, and in the interest of the Company and its Shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Purchase Agreement and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Puxing Energy Limited

Tse Chi Man	**Yao Xianguo**	**Yu Wayne W.**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the full text of the letter of advice from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex
富域資本
Donvex Capital Limited
富域資本有限公司

Unit 2502, 25/F
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

24 June 2020

The Independent Board Committee and the Independent Shareholders of
Puxing Energy Limited (formerly known as "Puxing Clean Energy Limited")

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement and the transaction contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 24 June 2020 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

As stated in the Letter from the Board, on 6 May 2020, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Share Purchase Agreement, pursuant to which the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company at the Consideration of RMB333,398,965.29 (subject to adjustment), subject to the terms and conditions of the Share Purchase Agreement.

The Vendor is the Controlling Shareholder, which indirectly holds approximately 65.42% of the issued share capital of the Company. Therefore, the Vendor is a connected person of the Company. Accordingly, the entering into the Share Purchase Agreement and the transaction contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the Listing Rules. The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Share Purchase Agreement and the transaction contemplated thereunder. The Vendor and its associates will be required to abstain from voting on the resolution in relation to the Share Purchase Agreement and the transaction contemplated thereunder.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Tse Chi Man, Mr. Yao Xianguo and Mr. Yu Wayne W., has been established to advise the Independent Shareholders on (a) whether the terms of the Share Purchase Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole; (b) whether the Acquisition is on normal commercial terms and in the Company's ordinary and usual course of business; and (c) how the Independent Shareholders should vote in respect of the resolution to approve the Share Purchase Agreement and the transaction contemplated thereunder at the EGM. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

We did not act as financial adviser to the Group, the Target Company, and their respective connected persons in the past two years immediately preceding the Latest Practicable Date.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement and the transaction contemplated thereunder. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true until the date of the EGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed that, having made all reasonable enquiries, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular or the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view regarding the Share Purchase Agreement and the Acquisition, and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group.

Our opinion is based on the financial, economic, market, and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise, or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell, or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

The Group is principally engaged in the development, operation, and management of natural gas-fired power plants.

The table below sets forth a summary of the consolidated financial information of the Group for the three years ended 31 December 2019 as extracted from the annual report for the year ended 31 December 2019 ("**2019 Annual Report**") and the annual report for the year ended 31 December 2018 ("**2018 Annual Report**") of the Company:

	For the year ended 31 December		
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Total revenue	292,209	281,625	348,364
Including revenue from major products:			
Electricity	263,469	255,726	340,556
Heat	28,740	25,899	7,808
Profit after taxation	54,851	45,580	34,168

	As at 31 December		
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	48,893	74,860	75,862
Net assets	576,663	543,021	521,873

The revenue of the Group decreased from approximately RMB348.4 million for the year ended 31 December 2017 ("**FY2017**") to approximately RMB281.6 million for the year ended 31 December 2018 ("**FY2018**"), which was mainly attributable to the net effect of (a) the decrease of the revenue from sales of electricity due to the decrease of overall power generation in 2018; and (b) the increase of revenue generate from the sales of heat due to the increase in the number of heat users. The revenue of the Group increased from approximately RMB281.6 million for FY2018 to approximately RMB292.2 million for the year ended 31 December 2019 ("**FY2019**"), which remained stable in FY2019.

The profit after taxation of the Group increased from approximately RMB34.2 million for FY2017 to approximately RMB45.6 million for FY2018, and further increased to approximately RMB54.9 million for FY2019, which was mainly attributable to the following reasons: (a) the profit from operations of the Group increased during FY2018 and FY2019; and (b) the interest on interest-bearing borrowings decreased as the Group has repaid certain borrowings during FY2018 and FY2019.

The cash and cash equivalents of the Group decreased from approximately RMB75.9 million as at 31 December 2017 to approximately RMB74.9 million as at 31 December 2018, and further decreased to approximately RMB48.9 million as at 31 December 2019, which was mainly due to the repayment of interest-bearing borrowings during FY2018 and FY2019.

The net assets of the Group increased from approximately RMB521.9 million as at 31 December 2017 to approximately RMB543.0 million as at 31 December 2018, and further increased to approximately RMB576.7 million as at 31 December 2019, which was mainly due to the net effect of (a) the increase in profit after taxation for FY2018 and FY2019; and (b) the dividends declared.

2. Background information of the Target Company

The Target Company is a company established under the laws of the PRC with limited liability on 30 November 2011 with a paid-up capital of RMB300,000,000 and a wholly-owned subsidiary of the Vendor. It is principally engaged in thermal power technology research and development; gas turbine thermal power project investment, operation maintenance, technical services; power generation business and photovoltaic power generation project investment and development. The Target Company has an installed capacity of 230MW and a maximum heating capacity of approximately 200 tons/hour.

The table below sets forth a summary of the of the audited financial information of the Target Company prepared in accordance with all applicable International Financial Reporting Standards for the three years ended 31 December 2019:

	For the year ended 31 December		
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	170,910	169,324	166,315
Profit before taxation	67,076	63,048	57,479
Profit after taxation	50,365	47,159	43,049

	As at 31 December		
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	784,458	831,627	928,575
Total liabilities	374,313	471,847	583,336
Net assets	410,145	359,780	345,239
Total debt *(Note 1)*	349,250	450,250	566,250
Less: Cash and cash equivalents	(12,478)	(28,775)	(73,001)
Net debt	336,772	421,475	493,249
Total capital *(Note 2)*	746,917	781,255	838,488
Gearing ratio *(Note 3)*	45.1%	53.9%	58.8%

Note 1: Total debt includes interest-bearing borrowings.

Note 2: Total capital is calculated based on total equity attributable to equity shareholders of the Target Company plus net debt.

Note 3: The gearing ratio is calculated based on the net debt divided by total capital as at the respective year end and multiplied by 100%.

The revenue of the Target Company increased from approximately RMB166.3 million for FY2017 to approximately RMB169.3 million for FY2018, and then further increased to approximately RMB170.9 million for FY2019, which remained stable for three years ended 31 December 2019.

The profit after taxation of the Target Company increased from approximately RMB43.0 million for FY2017 to approximately RMB47.2 million for FY2018, and then further increased to approximately RMB50.4 million for FY2019. The significant increase of the profit after taxation in FY2019 was mainly attributable to the decrease of interest expense as a result of the repayment of interest-bearing borrowings.

The total assets of the Target Company amounted to approximately RMB928.6 million, RMB831.6 million, and RMB784.5 million as at 31 December 2017, 2018, and 2019, respectively, while the total liabilities amounted to approximately RMB583.3 million, RMB471.8 million, and RMB374.3 million, respectively. The total assets mainly consisted of property, plant and equipment and inventories, whereas the total liabilities mainly consisted of interest-bearing borrowings.

The cash and cash equivalents of the Target Company decreased from approximately RMB73.0 million as at 31 December 2017 to approximately RMB28.8 million as at 31 December 2018, and further decreased to approximately RMB12.5 million as at 31 December 2019, which was mainly attributable to the repayment of interest-bearing borrowings and the payment of dividends.

The gearing ratio of the Target Company decreased from 58.8% as at 31 December 2017 to 53.9% as at 31 December 2018, and further decreased to 45.1% as at 31 December 2019. Such decrease was mainly attributable to the repayment of interest-bearing borrowings.

3. Principal terms of the Share Purchase Agreement

(1) Date

6 May 2020

(2) Parties

(a) the Purchaser; and

(b) the Vendor.

(3) Subject matter

Pursuant to the Share Purchase Agreement, the Purchaser agreed to acquire, and the Vendor agreed to dispose of, 100% of the equity interests in the Target Company, subject to terms and conditions of the Share Purchase Agreement.

(4) Consideration

The Consideration for the Acquisition is RMB333,398,965.29 (subject to adjustment). The parties to the Share Purchase Agreement agreed to adjust the final amount of the Consideration based on the net asset value in the Completion Audit Report issued within 30 days after the Completion Date, minus the accumulated undistributed profit of the Target Company as at 31 December 2019 of approximately RMB82.3 million (the "**Adjusted Consideration**"). The Adjusted Consideration so determined in accordance with the aforementioned Completion Audit Report is binding on all parties to the Share Purchase Agreement, and the Vendor and the Purchaser shall adjust the Consideration to be paid by the Purchaser based on the Adjusted Consideration.

(5) Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Purchaser and Vendor on normal commercial terms with reference to a number of factors, including:

(i) the historical financial performance of the Target Company for the three years ended 31 December 2019 prepared in accordance with the PRC GAAP;

(ii) the unaudited net asset value of the Target Company as at 31 March 2020 prepared in accordance with the PRC GAAP of approximately RMB415.7 million;

(iii) the accumulated undistributed profit of the Target Company as at 31 December 2019 of approximately RMB82.3 million;

(iv) the condition of the generating units and equipment owned by the Target Company;

(v) the business development and prospects of the Target Company; and

(vi) the benefits of the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition" in the Letter from the Board of this Circular.

(6) Payment of the Consideration

The Purchaser shall pay the Vendor RMB50,000,000 within ten (10) Business Days from the Completion Date (the "**First Payment**").

Upon the issuance of the Completion Audit Report, the Purchaser shall pay the Vendor all outstanding Consideration (the "**Outstanding Payment**") in accordance with the following equation:

Outstanding Payment = Adjusted Consideration – First Payment

Upon issuance of the Completion Audit Report, the Outstanding Payment shall be payable by the Purchaser in three instalments in the following manners together with the relevant interests on such payments incurred from the issuance date of the Completion Audit Report to the actual payment date at fixed interest rate of 5% per annum:

(a) on the first anniversary of the issuance date of the Completion Audit Report, the Purchaser shall pay the Vendor RMB100,000,000 (the "**First Outstanding Payment**") and the relevant interests;

(b) on the second anniversary of the issuance date of the Completion Audit Report, the Purchaser shall pay the Vendor RMB100,000,000 (the "**Second Outstanding Payment**") and the relevant interests;

(c) on the third anniversary of the issuance date of the Completion Audit Report, the Purchaser shall pay the Vendor the remainder of the Outstanding Payment (the "**Remainder of Outstanding Payment**") and the relevant interests in accordance with the following equation:

Remainder of Outstanding Payment = Outstanding Payment –
(First Outstanding Payment + Second Outstanding Payment)

The Purchaser has the right to pay the Vendor the Outstanding Payment in advance of the instalment payment schedule set out above. The Purchaser shall notify the Vendor in writing before making such advanced payments. Each advanced payment paid by the Purchaser shall not be less than RMB10,000,000, and the Purchaser shall also pay the interests corresponding to such advanced payments.

(7) Conditions precedent

Completion is conditional upon the satisfaction of or full or partial waiver (except condition (c) below) of, the following conditions precedent on or before the Completion Date in accordance with the terms of the Share Purchase Agreement:

(a) the representations and warranties made by the Purchaser and the Vendor under the Share Purchase Agreement shall be true, accurate and complete in all respects on the Completion Date;

(b) the Purchaser and Vendor shall have fulfilled and complied with all the agreements, commitments, obligations and conditions contained in the Share Purchase Agreement which shall be performed or complied with on or before the Completion Date;

(c) all consents required by the Acquisition (including but not limited to the consent of relevant government departments, internal approvals of the Target Company and consents of third parties) shall have been duly obtained by the Vendor and the Target Company and continue to be fully valid, and all consents required by the Acquisition, including but not limited to the passing of the relevant resolutions during a duly convened extraordinary general meeting of the Company in relation to the very substantial acquisition and connected transaction (as defined under the Listing Rules) in relation to the Acquisition and (if applicable) consents of other relevant government departments, the Stock Exchange, third parties and internal permissions of the Company shall have been duly obtained by the Purchaser and continue to be fully valid;

(d) the Purchaser has completed the due diligence review (including but not limited to the legal affairs, financials, tax affairs, assets, debt, operation and business conditions of the Target Company) and the Purchaser has been satisfied with the results of such due diligence review;

(e) no material adverse impact has occurred and there is no reasonable indication that any material adverse impact will occur;

(f) no one has threatened to bring, has already filed or has been pending to file a claim to attempt to impose any restrictions on the Completion of the Acquisition;

(g) there are no claims from any government department or any law that proposes, promulgates, implements, issues, or is deemed to be applicable to the Acquisition or any changes to current law that, based on reasonable judgment, would directly or indirectly restrict the Completion of the Acquisition in any material respect;

(h) the Target Company has completed the registration and filed the transfer of its equity interest at the industrial and commercial department (the "**Equity Transfer**") (for the avoidance of doubt, before the completion of the Equity Transfer, all interests of the equity interest of the Target Company belongs to the Vendor and after the completion of the Equity Transfer, all interests of the equity interests belong to the Purchaser);

(i) the international certified public accountants have audited the financial statements of the Target Company prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board for each of the years ended 31 December 2017, 2018 and 2019 without modified audit opinion; and

(j) all agreements, contracts, instruments, memoranda, certificates or other documents signed or related to the Acquisition have been (if applicable) duly signed by the Vendor and in force.

Save and except for condition (c) above, all other conditions may be waived by the Purchaser in writing at its discretion. The above condition (c) shall not be waivable at all times.

(8) Completion

Completion shall take place within ten (10) Business Days after all the conditions precedent (except those that are waived) are satisfied or such other day as the parties to the Share Purchase Agreement may agree in writing.

Before or upon Completion, the Vendor shall or cause the Target Company to deliver the following documents to the Purchaser:

(a) the shareholders' resolutions of the Vendor approving the Acquisition and amendment of articles of association of the Target Company, duly signed by the Vendor, and, as may be required by the articles of association of the Target Company, all duly signed internal documents of the Target Company required for the purposes of approving the Acquisition;

(b) written documents regarding the designation of relevant account(s) as the account(s) to accept the Consideration and/or other relevant payments under the Share Purchase Agreement and specific information of such account(s);

(c) the new business licence and the copy of the full set of documents issued by Quzhou City Kecheng District Market Supervision and Administration Bureau* (衢州市柯城區市場監督管理局) regarding the Acquisition (and the Vendor having confirmed in writing that such documents are completely consistent with the originals actually submitted to Quzhou City Kecheng District Market Supervision and Administration Bureau* (衢州市柯城區市場監督管理局));

(d) all assets, documents and materials of the Target Company including but not limited to official seals and other seals, account books, receipts, archives, contracts, invoices, licenses, property certificates, electronic information, business qualifications, governmental project approvals or permits have been transferred to person designated by the Purchaser (if applicable), and the Purchaser and the Vendor having signed a handover list. Such handover list shall also include a list of all the Target Company's real estate and equipment that worth more than RMB100,000, a list of the Target Company's employees and all other information that the Purchaser believes should be listed; and

(e) a certificate signed by the Vendor in accordance with the format and content of annex B to the Share Purchase Agreement to confirm that all conditions precedent pertaining to the Vendor as set out in the section headed "3. Principal terms of the Share Purchase Agreement – (7) Conditions Precedent" above have been satisfied.

Before or upon Completion, the Purchaser shall transfer to the Vendor a certificate signed by the Purchaser in the format and content set out in the Share Purchase Agreement to confirm that all conditions precedent pertaining to the Purchaser as set out in the section headed "3. Principal terms of the Share Purchase Agreement – (7) Conditions Precedent" above have been satisfied.

(9) Termination

At any time, the Share Purchase Agreement may be terminated and the Acquisition may be aborted:

(a) unless the Vendor and the Purchaser agree otherwise, if Completion does not take place before 30 September 2020, either the Vendor or the Purchaser shall serve a written notice to the other party; or

(b) with the written consent of the Vendor and the Purchaser.

If the following occurs, any party has the right to, pursuant to an independent and prudent decision, terminate the Share Purchase Agreement with immediate effect by notifying the other party in writing, free of any responsibility under the Share Purchase Agreement:

(a) either party to the Share Purchase Agreement fails to complete, abide by, or perform its obligations, commitments, or guarantees under the Share Purchase Agreement in a timely and effective manner, and as a result such obligation, commitment or guarantee cannot be fulfilled before the Completion Date by reasonable judgement; or

(b) statements or warranties made by either party to the Share Purchase Agreement are untrue, inaccurate, incomplete or misleading, or any such statements or warranties will apparently become untrue, inaccurate, incomplete or misleading, or the occurrence of any event or circumstance that causes or will cause any statement or warranty made by either party to the Share Purchase Agreement untrue, inaccurate, incomplete or misleading.

If the Share Purchase Agreement is terminated in accordance with the above provisions, the Share Purchase Agreement will no longer be valid, but the parties to the Share Purchase Agreement shall not be exempted from their respective breaches of the Share Purchase Agreement or any liability arising out from any misrepresentation under the Share Purchase Agreement, and such termination shall not be regarded as a waiver of any remedy (including specific performance, if awarded) for any such breach or misrepresentation.

If the Share Purchase Agreement is terminated in accordance with the above provisions or any applicable law, the parties to the Share Purchase Agreement shall use their respective reasonable efforts to restore any actions and effects produced by the parties to complete the Acquisition to the status before the parties entered into the Share Purchase Agreement (including but not limited to further registration and filing procedures regarding the filings to the industrial and commercial department regarding the transfer of the Target Company's shares).

4. The valuation

(1) The valuer

The major generator equipment held by the Target Company (the "**Assets**") were valued by Roma Appraisals Limited (the "**Valuer**"), an independent valuer appointed by the Company (the "**Valuation**"). The Valuer confirmed that (a) it is independent from the Company; (b) all relevant material information provided by the Company had been incorporated in the Valuation Report; and (c) there were no other material relevant information or representations relating to the Assets provided or made by the Company to the Valuer not having been included in the Valuation.

(2) Valuation methodology

We noted that the Valuer has adopted the cost approach for the Valuation.

Based on the foregoing, we have discussed with the Valuer on the rationale of adopting the different valuation methodologies for valuing the Assets. According to the Valuer, the cost approach is the most appropriate valuation method to value the assets due to the following reasons:

(a) the sales comparison approach is not appropriate for the Valuation since the Assets are not readily available in the market and there are no similar assets in the market comparable to the Assets;

(b) the income approach is not appropriate for the Valuation since the cash flow income generated from the Assets cannot be easily and accurately quantified or ascertained; and

(c) the cost approach is appropriate for the Valuation since the Assets are specially built for the generation of electricity and not readily available in the market.

After considering the reasons above, we are of the view that the valuation methodology adopted by the Valuer is reasonable and acceptable for the Valuation.

(3) Valuation assumption

We noted that the Valuer has made the assumption for the valuation of the Assets, including:

(a) the existing political, legal, and economic conditions in the jurisdiction where the Assets operate or will operate, i.e. the PRC, and which will materially affect the revenues generated, will have no material change;

(b) the interest rate, exchange rates, taxation laws, policy-base levies in the jurisdiction where the Assets operate or will operate will have no material change;

(c) unless otherwise stated, the Target Company will fully comply with all applicable laws and regulations;

(d) the financial information in respect of the Assets has been prepared on a reasonable, accountable and stable basis, reflecting estimates by the management of the Target Company. The information has also been examined under due and careful considerations;

(e) there is no force majeure or unforeseeable circumstances which may materially affect the Assets and the Target Company, and the economic conditions will not deviate significantly from reasonable economic forecasts;

(f) the information in relation to the Assets provided by the Group is true, complete, and lawfully valid;

(g) the adopted accounting policies, scope of business, mode of operation of the Assets and the Target Company will be consistent with those of the Group as at the date of Valuation;

(h) the Assets will continue to be in use and the Assets will be used in the existing state with the benefit of continuity of tenure of land and buildings in the foreseeable future; and

(i) the Assets continue to comply with the current environmental standards and ordinances.

After considering the above, we are of the view that the assumptions adopted by the Valuer for the Valuation are reasonable.

(4) Scope of work

We noted that the following work has been performed by the Valuer for the Valuation:

(a) obtained the information in respect of the Assets;

(b) made inquiries into the Assets with the senior management of the Target Company; and

(c) carried out inspections on the Assets.

After considering the above, we are of the view that the scope of work performed by the Valuer for the Valuation is appropriate.

5. Assessment on the Consideration

(1) Our analysis

We have selected the price-to-earnings ("**P/E**") multiple and the price-to-book ("**P/B**") multiple (collectively, the "**Multiples**"), which are commonly adopted for the assessment of the reasonableness of the Consideration for the transactions involving power assets. The following table sets forth the calculation of the Multiples for the Acquisition:

P/E multiple (times)

Basis:	The P/E multiple is calculated based on (a) the Consideration of approximately RMB333.4 million; and (b) the audited profit after taxation for FY2019 of the Target Company of approximately RMB50.4 million.
Calculation:	$\frac{\text{Consideration}}{\text{Audited profit after taxation for FY2019}}$
Ratio:	6.62

P/B multiple (times)

Basis:	The P/B multiple is calculated based on (a) the Consideration of approximately RMB333.4 million; and (b) the audited net assets as at 31 December 2019 of the Target Company of approximately RMB410.1 million.
Calculation:	$\dfrac{\text{Consideration}}{\text{Audited net assets as at 31 December 2019}}$
Ratio:	0.81

For the purpose of assessing the fairness and reasonableness of the Consideration, we have derived the Multiples of the Acquisition and compared them to the Multiples of (a) certain companies which are listed in Hong Kong and have operations similar to the Target Company (the "**Comparable Companies**"); and (b) certain transactions involving acquisition of power generation companies in PRC (the "**Comparable Transactions**").

(2) Comparison between the Multiples of the Acquisition and the Comparable Companies

As shown in the paragraph headed "Principal factors and reasons considered – 1. Background information of the Group", approximately 90% of the revenue of the Group was generated from the sales of electricity for FY2019. Based on the above, we have formulated the following criteria in selecting the Comparable Companies: (a) they are engaged in the investment, development, operation and management of power plants; and (b) a majority of revenue of each Comparable Company (i.e. no less than 80% of the total revenue of the respective Companies) is generated from the sales of electricity in FY2019.

As such, we have selected 13 Comparable Companies. The following table set out a summary of the Multiples of the Comparable Companies:

	Comparable Companies	Stock code	P/E multiple (Note 1) *times*	P/B multiple (Note 2) *times*
1	CLP Holdings Limited	00002.HK	44.51	1.73
2	GCL New Energy Holdings Limited	00451.HK	9.09	0.27
3	Beijing Jingneng Clean Energy Co., Limited	00579.HK	4.82	0.44
4	Huadian Fuxin Energy Corporation Limited	00816.HK	6.28	0.31
5	China Resources Power Holdings Company Limited	00836.HK	7.99	0.61
6	Huaneng Power International, Inc.	00902.HK	349.08 *(Note 3)*	0.42
7	China Longyuan Power Group Corporation Limited	00916.HK	8.12	0.59
8	Datang International Power Generation Co., Ltd.	00991.HK	66.01 *(Note 3)*	0.30
9	Huadian Power International Corporation Limited	01071.HK	9.11	0.32
10	Sichuan Energy Investment Development Co., Ltd.	01713.HK	10.63	0.69
11	CGN New Energy Holdings Co., Ltd.	01811.HK	4.74	0.61
12	CGN Power Co., Ltd.	01816.HK	9.17	0.70
13	China Power International Development Limited	02380.HK	11.38	0.33
	High-end		349.08	1.73
	Low-end		4.74	0.27
	Average		41.61	0.56
	Median		9.11	0.44
	Excluding outliers			
	High-end		44.51	1.73
	Low-end		4.74	0.27
	Average		11.44	0.56
	Median		9.09	0.44
	The Acquisition		6.62	0.81

Source: Stock Exchange, Annual results for FY2019 of each Comparable Company

Note 1: The P/E multiple of the respective Comparable Companies is calculated based on the closing share price as at 31 December 2019 divided by the basic earnings per share for FY2019 disclosed in the annual results for FY2019.

Note 2: The P/B multiple of the respective Comparable Companies is calculated based on the closing share price as at 31 December 2019 divided by the net asset value per share as at 31 December 2019, which is calculated based on the net asset value as at 31 December 2019 divided by the number of shares issued as at 31 December 2019 disclosed in the annual results for FY2019 and monthly return of equity issuer on movement in securities as at 31 December 2019 of the respective Comparable Companies.

Note 3: The P/E multiples of these two Comparable Companies are exceptionally high since their market prices as at 31 December 2019 were high with the basic earnings per share for FY2019 close to nil. Therefore, we are of the view that the P/E multiples of these two Comparable Companies are outliers.

As shown in the table above, the P/E multiple of the Comparable Companies (excluding outliers) ranged from approximately 4.74 to approximately 44.51. As such, the P/E multiple of the Acquisition falls within the range of the Comparable Companies (excluding outliers) and is below the average and the median of the P/E multiples of the Comparable Companies (excluding outliers).

In respect of the P/B multiple of the Comparable Companies, it ranged from approximately 0.27 to approximately 1.73. As such, the P/B multiple of the Acquisition falls within the range of the Comparable Companies.

(3) Comparison between the Multiples of the Acquisition and the Comparable Transactions

We have used our best efforts to conduct analysis by reviewing the Multiples of the Comparable Transactions announced after 1 January 2017 and have formulated the criteria that the transactions involve the acquisition of power plants when selecting the Comparable Transactions.

Based on the above criteria, we are aware of the following findings: (a) there were no precedent transaction involving the acquisition of natural gas-fired power plants only; (b) most Comparable Transactions involved the acquisition of entire equity of the power plants with new energy power generating units such as solar power plants in the PRC, the energy source of which is different from that of the Target Company; and (c) the remaining two Comparable Transactions disclosed in the table below involved the acquisition of entire equity of the power plants mainly with fossil fuel-fired power generating units in the PRC, whose category of the energy source is the same as that of the Target Company.

Taking into account the above, we have searched and identified two Comparable Transactions announced after 1 January 2017. In light of our aforementioned findings and the similarities between the two Comparable Transactions and the Acquisition, we are of the view that (a) the list of Comparable Transactions represented an exhaustive list of transactions fulfilling the selection criteria; and (b) the sample size is meaningful and representative.

The following table set out a summary of the valuation multiples of the Comparable Transactions:

	Comparable Companies	Stock code	Date of announcement	Business of target companies	P/E multiple *(Note 1)* *times*	P/B multiple *(Note 2)* *times*
1	China Power International Development Limited	02380.HK	9 October 2017	Natural gas power, wind power, photovoltaic power, hydropower	11.25	1.30
2	Datang International Power Generation Co., Ltd.	00991.HK	22 February 2018	Wind power, photovoltaic power, coal-fired power	9.71	1.55
	High-end				11.25	1.55
	Low-end				9.71	1.30
	The Acquisition				6.62	0.81

Source: *Announcements or circulars from the respective listed companies*

Note 1: The P/E multiple of the respective Comparable Transactions is calculated based on the consideration of the transaction divided by the net profit for a full financial year immediately preceding the completion date of the transaction.

Note 2: The P/B multiple of the respective Comparable Transactions is calculated based on the consideration of the transaction divided by the total net assets as at the then latest available balance sheet date immediately preceding the completion date of the transaction.

As shown in the table above, the P/E multiple of the Comparable Transactions ranged from approximately 9.71 to approximately 11.25, and the P/B multiple of the Comparable Transactions ranged from approximately 1.30 to approximately 1.55. The Multiples of the Acquisition fall below the range of the Multiples of the Comparable Transactions, respectively.

(4) Conclusion

Considering that (a) the P/E multiple of the Acquisition falls within the range of the Comparable Companies (excluding outliers) and is below the average and the median of the P/E multiples of the Comparable Companies (excluding outliers); (b) the P/B multiple of the Acquisition falls within the range of the Comparable Companies; and (c) the Multiples of the Acquisition fall below the range of the Multiples of the Comparable Transactions, respectively, we are of the view that the Consideration is fair and reasonable.

5. Industry overview

The table below illustrates the gross domestic products ("**GDP**") and electricity consumption of Quzhou City and Zhejiang Province:

	For the year ended 31 December					
	2015	**2016**	**2017**	**2018**	**2019**	**CAGR**
						%
GDP *(RMB billion)*	114.6	124.5	138.0	147.1	157.4	6.5
Electricity consumption of Quzhou City *(million kWh)*	13,385.6	14,348.4	15,528.4	17,175.6	18,424.7	6.6
Electricity consumption of Zhejiang Province *(million kWh)*	355,390.0	387,319.0	419,263.0	453,282.0	470,600.0	5.8

Source: Zhejiang Provincial Bureau of Statistics (浙江省統計局), Statistics Bureau of Quzhou City (衢州市統計局)

The GDP of Quzhou City increased from approximately RMB114.6 billion for the year ended 31 December 2015 ("**FY2015**") to approximately RMB157.4 billion for FY2019, representing a CAGR of approximately 6.5% from FY2015 to FY2019.

Electricity consumption in Quzhou City had increased along with the city's GDP growth from approximately 13,385.6 million kWh for FY2015 to approximately 18,424.7 million kWh for FY2019, representing a CAGR of approximately 6.6% from FY2015 to FY2019. Electricity consumption in Zhejiang Province increased from approximately 355,390.0 million kWh for FY2015 to approximately 470,600.0 million kWh for FY2019, representing a CAGR of approximately 5.8% from FY2015 to FY2019, a CAGR lower than that of Quzhou City.

Pursuant to Energy Sector Development in the 13th Five-Year Plan (2016-2020)(《電力發展"十三五"規劃》) jointly published by National Development and Reform Commission of the PRC and National Energy Administration of the PRC (the "**PRC Energy Development Plan**"), the PRC government would carry out various plans to cope with the global climate changes, including but not limited to enhancing the use of clean energy. The PRC Energy Development Plan further illustrated that (a) natural gas-fired power plants with an aggregate installed capacity of more than five million kWh would be established in north, east, south, and northwest China; and (b) the aggregate installed capacity of natural gas-fired power plants throughout the PRC would reach 110 million kWh in 2020.

6. Reasons for and benefits of the Acquisition

The Group is principally engaged in the development, operation, and management of natural gas-fired power plants. Having considered the following reasons of the Acquisition, we are of the view that the Acquisition is fair and reasonable, on normal commercial terms, and in the interests of the Company and its Shareholders as a whole:

(1) Further development on the clean energy encouraged by the PRC government

Pursuant to the PRC Energy Development Plan, the PRC government would use its best efforts to deal with global climate changes by way of the development of clean energy in reducing the reliance on the consumption of traditional dirty energy. In particular, the PRC government requested the power plants to increase the consumption of natural gas when generating the electricity. According to Energy Development of Zhejiang Province in the 13th Five-Year Plan (《浙江省能源發展"十三五"規劃通知》)(the "**Zhejiang Province Energy Development Plan**"), no establishment of new coal-fired power plants will be approved until the end of 2020.

(2) Efficiency and stability of natural gas-fired power plants for electricity generation

The Directors are of the view that the electricity generation of natural gas-fired power plants will be efficient and stable due to the following reasons: (a) the natural gas-fired power plants can start and ramp up its electricity generation in a short period of time to satisfy the peak power demand; and (b) the supply of natural gas for electricity generation has been stable and guaranteed as Zhejiang Province has maintained sufficient natural gas for consumption since 2014, and has set up the facilities to retain the natural gas under emergency risks, which stabilized the supply of natural gas.

(3) The Target Company is a suitable acquisition target for the Group

As advised by the Directors, save for the natural-gas fired power plants owned by the Group and the Target Company, most of the natural-gas fired power plants in Zhejiang Province were owned by state-owned enterprises. The Directors consider that it is uneconomic to acquire the equity of other natural gas-fired power plants since (a) it would be very time-consuming for the Company to acquire the equity of the state-owned natural gas-fired power plants since it would involve the approval from the PRC government; and (b) there is no other non-state-owned natural gas-fired power plants with similar installed capacity comparable to the Target Company available in Zhejiang Province as at the Latest Practicable Date. Based on the above, we are of the view that the Target Company is a suitable acquisition target for the Group.

(4) Enhancement of aggregate installed capacity of the Group

As stated in the Letter from the Board, as at the Latest Practicable Date, the Group owns and operates four natural gas-fired power plants located in Zhejiang Province, the PRC with a total installed capacity of approximately 458MW, whereas the Target Company owns and operates a natural gas-fired power plant with installed capacity of approximately 230MW. Upon the Completion of the Acquisition, the total installed capacity of the Group is expected to increase by approximately 50.2%. As such, we are of the view that the aggregate installed capacity of the Group will be enhanced upon the Acquisition.

(5) Improvement of overall profitability of the Group

We noted that the revenue of the Target Company for FY2019 represented approximately 58.5% of the total revenue of the Group for the said period, whereas the profit after taxation of the Target Company for FY2019 represented approximately 91.8% of the profit after taxation of the Group for the said period. Considering the above, we are of the view that the Acquisition will significantly improve the profitability of the Group.

(6) Conclusion

Based on the above, considering (a) the further development on the clean energy required by the PRC government; (b) the efficiency and stability of electricity generation of natural gas-fired power plants; (c) that the Target Company is a suitable acquisition target for the Group; (d) enhanced profitability and aggregate installed capacity of the Group; and (e) fair and reasonable Consideration as illustrated under the paragraph headed "Principal factors and reasons considered – 5. Assessment on the Consideration – (4) Conclusion", we are of the view that the Acquisition is in the interests of the Company and its Shareholders as a whole.

7. Financial impact of the Acquisition to the Group

(1) Assets and liabilities

With reference to the unaudited pro forma financial information of the Enlarged Group as at 31 December 2019 set out in Appendix III to the Circular, upon Completion of the Acquisition and assuming that the Acquisition was completed on 31 December 2019, the total assets of the Group would have increased from approximately RMB1,170.6 million to approximately RMB1,950.0 million on a pro forma basis. The total liabilities of the Group would have increased from approximately RMB594.0 million to approximately RMB1,384.0 million on a pro forma basis. The net assets of the Group would have decreased from approximately RMB576.7 million to approximately RMB566.0 million on a pro forma basis.

(2) Gearing ratio

The gearing ratio is calculated based on the net debt divided by the total capital of the Group. According to the unaudited pro forma financial information of the Enlarged Group as at 31 December 2019 set out in Appendix III to the Circular, upon Completion of the Acquisition and assuming that the Acquisition was completed on 31 December 2019, the gearing ratio of the Enlarged Group would increase from approximately 43.4% to approximately 58.1% on a pro forma basis.

(3) Earnings

With reference to the unaudited pro forma financial information of the Enlarged Group for the year ended 31 December 2019 set out in Appendix III to the Circular, upon Completion of the Acquisition and assuming that the Acquisition was completed on 1 January 2019, the profit after taxation of the Group would have increased from approximately RMB54.9 million to approximately RMB89.5 million as a result of the Acquisition.

It should be noted that the analyses above are for illustrative purpose only and do not purport to represent how the financial positions and performance of the Group will be after the entering into of the Share Purchase Agreement. Having considered (a) the reasons for and the benefits of entering into the Share Purchase Agreement, details of which are set out under the section headed "Reasons for and benefits of the Acquisition" of this letter; and (b) positive impact on earnings, we consider that the Share Purchase Agreement and the transaction contemplated thereunder are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (a) the terms of the Share Purchase Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (b) while the Acquisition is not in the ordinary and usual course of business, the Acquisition is on normal commercial terms or better to the Group.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the EGM to approve the Share Purchase Agreement and the transaction contemplated thereunder and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Doris Sy
Director

Ms. Doris Sy is a person licensed to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and is a responsible office of Donvex Capital Limited who has around 18 years of experience in corporate finance advisory.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 is disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.puxing-energy.com):

- the Company's annual report for the year ended 31 December 2017 published on 26 April 2018 (pages 81 to 187), which can be accessed by the direct hyperlink below:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn20180426789.pdf

- the Company's annual report for the year ended 31 December 2018 published on 25 April 2019 (pages 79 to 191), which can be accessed by the direct hyperlink below:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425423.pdf

- the Company's annual report for the year ended 31 December 2019 published on 21 April 2020 (pages 83 to 219), which can be accessed by the direct hyperlink below:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0421/2020042100450.pdf

2. INDEBTEDNESS

As at the close of business on 30 April 2020, the Enlarged Group has outstanding borrowings of approximately RMB889,109,000 and lease liabilities of approximately RMB7,664,000, details of which are as follows:

	RMB'000
Unsecured and unguaranteed	
Loans from related parties	475,359
Unsecured and guaranteed	
Bank loans	413,750
Sub-total	889,109
Lease liabilities	7,664
Total	896,773

Save as disclosed herein, the Enlarged Group did not have any material outstanding loan capital or debt securities or non-convertible notes issues or authorised or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees, or other material contingent liabilities.

3. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Group is principally engaged in the development, operation and management of natural gas-fired power plants. The Group has an installed capacity of approximately 458MW (including approximately 578kW photovoltaic power generating units) and a maximum heating capacity of approximately 160 tons/hour.

For the year ended 31 December 2019, the profit attributable to equity Shareholders was approximately RMB54,854,000.

The Target Company is principally engaged in thermal power technology research and development; gas turbine thermal power project investment, operation maintenance, technical services; heating services; power generation business and photovoltaic power generation project investment and development. The Target Company has an installed capacity of approximately 230MW (including approximately 153kW photovoltaic power generating units) and a maximum heating capacity of approximately 200 tons/hour. For the year ended 31 December 2019, the profit for the year of the Target Company was approximately RMB50,365,000, representing approximately 91.82% of the profit attributable to equity Shareholders for the same year,

Upon the completion of the Acquisition, the installed capacity of the Group will increase from approximately 458MW (including 578kW photovoltaic power generating units) to approximately 688MW (including 731kW photovoltaic power generating units), representing an increase of approximately 50.22%, and the maximum heating capacity of the Group will increase from approximately 160 tons/hour to approximately 360 tons/hour, representing an increase of 125%, which can further strengthen the presence and operations of the Group in Zhejiang province, the PRC, and also, enhance the business and financial performance of the Group. However, due to the fact that the Outstanding Payment shall be payable by the Group in three instalments in three years since the issuance of the Completion Audit Report, the gearing ratio of the Group will also be increased accordingly.

Looking forward, as an enterprise focusing on energy and embracing the great energy era, the Group will transform into an integrated energy supplier with "Energy + Technology" as the core philosophy and dedicate itself to exploring the development of diversified energy business for injecting fresh impetus into the Group and enhancing its long-term growth potential and Shareholders' value. In the coming few years, apart from focusing on expanding its installed capacity and heating business, the Group will pursue new businesses such as auxiliary power service, energy contracts management and energy storage as its future development goals in order to maximize benefits and returns to Shareholders with its utmost efforts.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. WORKING CAPITAL

The Directors are of the opinion that, after taking into account (i) the financial resources (including but not limited to the internally generated cash flows and existing cash and bank balances) of the Enlarged Group, (ii) the consideration payable under the Acquisition, (iii) the credit facilities under the Financial Services Agreement, and (iv) the continuing financial support provided by the Vendor, the Enlarged Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

The following is the text of a report set out on pages II-1 to II-51, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF QUZHOU PUXING GAS TURBINE THERMAL POWER CO., LTD. TO THE DIRECTORS OF PUXING ENERGY LIMITED (FORMERLY KNOWN AS "PUXING CLEAN ENERGY LIMITED")

Introduction

We report on the historical financial information of Quzhou Puxing Gas Turbine Thermal Power Co., Ltd. (the "Target Company") set out on pages II-3 to II-51, which comprises the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for each of the years ended 31 December 2017, 2018 and 2019 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-51 forms an integral part of this report, which has been prepared for inclusion in the circular of Puxing Energy Limited (formerly known as "Puxing Clean Energy Limited") dated 24 June 2020 (the "Circular") in connection with the proposed acquisition of the entire equity interests of the Target Company.

Directors' responsibility for Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Company as defined on page II-3 on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2017, 2018 and 2019 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 June 2020

HISTORICAL FINANCIAL INFORMATION

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

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		2017	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	166,315	169,324	170,910
Operating expenses				
Fuel consumption		(32,316)	(35,916)	(34,766)
Depreciation and amortisation		(32,653)	(32,976)	(33,140)
Repairs and maintenance		(4,407)	(3,851)	(3,878)
Personnel costs	*5(b)*	(5,202)	(5,640)	(5,995)
Administrative expenses		(4,722)	(4,669)	(4,152)
Sales related taxes		–	–	(1,072)
Other operating expenses		(310)	(457)	(1,074)
Profit from operations		86,705	85,815	86,833
Finance income		997	1,011	296
Finance expenses		(30,554)	(26,166)	(20,434)
Net finance costs	*5(a)*	(29,557)	(25,155)	(20,138)
Other income	*6*	331	2,388	381
Profit before taxation	*5*	57,479	63,048	67,076
Income tax	*7*	(14,430)	(15,889)	(16,711)
Profit and total comprehensive income for the year		43,049	47,159	50,365

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION

	Note	2017 RMB'000	2018 RMB'000	2019 RMB'000
Non-current assets				
Property, plant and equipment	10	760,316	731,448	708,631
Intangible assets	11	209	100	31
		760,525	731,548	708,662
Current assets				
Inventories	12	43,999	44,514	44,388
Trade and other receivables	13	44,050	26,790	18,930
Restricted cash deposits	21(a)	7,000	–	–
Cash and cash equivalents	14(a)	73,001	28,775	12,478
		168,050	100,079	75,796
Current liabilities				
Interest-bearing borrowings	15	116,000	116,000	131,000
Trade and other payables	16	10,540	9,101	13,628
Current taxation	17(a)	4,368	7,748	6,841
		130,908	132,849	151,469
Net current assets/(liabilities)		37,142	(32,770)	(75,673)
Total assets less current liabilities		797,667	698,778	632,989
Non-current liabilities				
Interest-bearing borrowings	15	450,250	334,250	218,250
Deferred tax liabilities	17(b)	2,178	4,748	4,594
		452,428	338,998	222,844
NET ASSETS		345,239	359,780	410,145
CAPITAL AND RESERVES				
Share capital	18(b)	300,000	300,000	300,000
Reserves	18(c)	45,239	59,780	110,145
TOTAL EQUITY		345,239	359,780	410,145

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017		300,000	5,725	51,493	357,218
Changes in equity for 2017					
Profit for the year		–	–	43,049	43,049
Distribution of profits	*18(d)*	–	–	(55,028)	(55,028)
Appropriation to reserves	*18(c)*	–	3,651	(3,651)	–
Balance at 31 December 2017 and 1 January 2018		300,000	9,376	35,863	345,239
Changes in equity for 2018					
Profit for the year		–	–	47,159	47,159
Distribution of profits	*18(d)*	–	–	(32,618)	(32,618)
Appropriation to reserves	*18(c)*	–	4,071	(4,071)	–
Balance at 31 December 2018 and 1 January 2019		300,000	13,447	46,333	359,780
Changes in equity for 2019					
Profit for the year		–	–	50,365	50,365
Appropriation to reserves	*18(c)*	–	5,133	(5,133)	–
Balance at 31 December 2019		300,000	18,580	91,565	410,145

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CASH FLOWS

	Note	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*
Cash flows from operating activities				
Profit for the year		43,049	47,159	50,365
Adjustments for:				
Depreciation of property, plant and equipment	*5(c)*	32,522	32,844	33,071
Amortisation of intangible assets	*5(c)*	131	132	69
Net finance costs	*5(a)*	29,557	25,155	20,138
Net loss on disposal of property, plant and equipment	*5(c)*	–	–	334
Tax expense	*7(a)*	14,430	15,889	16,711
		119,689	121,179	120,688
Changes in working capital:				
Decrease/(increase) in inventories		1,312	(515)	127
Decrease in trade and other receivables		29,865	17,122	7,860
Increase in trade and other payables		4,817	6,026	3,454
Cash generated from operating activities		155,683	143,812	132,129
Interest paid		(30,658)	(26,316)	(20,599)
Income tax paid		(8,776)	(9,939)	(17,772)
Net cash generated from operating activities		116,249	107,557	93,758

	Note	2017 RMB'000	2018 RMB'000	2019 RMB'000
Cash flows from investing activities				
Payment for purchase of property, plant and equipment		(9,795)	(11,153)	(9,351)
Payment for intangible assets		–	(23)	–
Interest received		997	1,011	296
Net cash used in investing activities		(8,798)	(10,165)	(9,055)
Cash flows from financing activities				
Proceeds from interest-bearing borrowings	*15*	–	–	15,000
Repayment of interest-bearing borrowings	*15*	(78,140)	(116,000)	(116,000)
Proceeds from pledged deposits		15,000	7,000	–
Payment for pledged deposits		(7,000)	–	–
Dividends paid to equity shareholders	*18(d)*	(55,028)	(32,618)	–
Net cash used in financing activities		(125,168)	(141,618)	(101,000)
Net decrease in cash and cash equivalents		(17,717)	(44,226)	(16,297)
Cash and cash equivalents at 1 January		90,718	73,001	28,775
Cash and cash equivalents at 31 December	*14(a)*	73,001	28,775	12,478

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 Basis of preparation and presentation of Historical Financial Information

Quzhou Puxing Gas Turbine Thermal Power Co., Ltd. (the "Target Company") was incorporated in Quzhou Zhejiang Province in the People's Republic of China (the "PRC")on 30 November 2011.

The principal activities of the Target Company are the development, operation and management of power plant.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Company has adopted all applicable new and revised IFRSs, including IFRS 9, *Financial instruments*, IFRS15, *Revenue from contracts with customers* and IFRS16, *Leases*, to the Relevant Periods except for any new standards or interpretations that were not effective for the Relevant Periods. The revised and new accounting standards and interpretations that were issued but not yet effective for the Relevant Periods are set out in Note 24.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, the statutory financial statements of the Target Company for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with the relevant accounting rules and regulations applicable in the PRC, and were audited by CAC CPA Limited Liability Partnership(中審華會計師事務所(特殊普通合夥)), Beijing Jinhua Chengxin Certified Public Accountants Co., Ltd(北京金華誠信會計師事務所有限責任公司) and Beijing Jinhua Chengxin Certified Public Accountants Co., Ltd(北京金華誠信會計師事務所有限責任公司) respectively, all of which are certified public accountants registered in the PRC.

2 Significant accounting policies

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

As at 31 December 2019, the Target Company had net current liabilities of RMB75,673,000 (31 December 2018: RMB32,770,000). In view of this circumstance, the directors of the Target Company have given careful consideration to the future liquidity and performance of the Target Company and its available sources of finance in assessing whether the Target Company will have sufficient financial resources to continue as a going concern.

Based on future projection of the Target Company's profit and cash inflows from operations, credit facilities of RMB170 million granted by Wanxiang Finance Co., Ltd. ("Wanxiang Finance"), a related party of the Target Company, in April 2020 with a period of no less than 2 years and financial support from Shanghai Pu-Xing Energy Limited, the directors of the Target Company believe that the Target Company will generate sufficient cash flows to meet its liabilities as and when they fall due in the next twelve months since 1 January 2020. Accordingly, the directors of the Target Company consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Target Company's ability to continue as a going concern and have prepared the Historical Financial Information on a going concern basis.

(b) Functional and presentation currency

The Historical Financial Information is presented in Renminbi ("RMB") which is the functional currency of the Target Company located in the PRC. All financial information presented in RMB has been rounded to the nearest thousands, except when otherwise indicated.

(c) Use of judgements and estimates

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The key sources of estimation uncertainty are as follows:

(i) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value.

Management reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(ii) Impairment of property, plant and equipment

The Target Company tests whether property, plant and equipment suffered any impairment whenever an impairment indication exists. In accordance with note 2(g)(ii), an impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. It is reasonably possible, based on existing knowledge, that outcomes within the next financial period that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses (see note 2(g)).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Target Company.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of significant items of property, plant and equipment are as follows:

Buildings and plants	30 years
Major generator equipment	25 – 30 years
Other machineries	5 – 20 years
Motor vehicles, furniture, fixtures, equipment and others	5 – 10 years
Right-of-use assets-land use rights	50 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

Intangible assets that are acquired by the Target Company are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(g)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Pollutant emission right	5 years
Software	5 – 10 years

Both the period and method of amortisation are reviewed annually.

(f) Leased assets

At inception of a contract, the Target Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Target Company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Company recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Company enters into a lease in respect of a low-value asset, the Target Company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(d) and 2(g)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Target Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Target Company recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

Other financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Company in accordance with the contract and the cash flows that the Target Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Company is exposed to credit risk.

In measuring ECLs, the Target Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Company considers that a default event occurs when the financial asset is 60 days past due. The Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Company.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(p) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets; and

– intangible assets;

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories include materials for repairs and maintenance and spare parts, and are stated at the lower of cost and net realisable value.

Inventories are initially recorded at cost and are charged to operating expenses when used, or capitalised to property, plant and equipment when installed, as appropriate, using weighted average cost basis. Cost of inventories includes costs of purchase and transportation costs. Provision for inventory obsolescence is determined by the excess of cost over net realisable value.

(i) Trade and other receivables

A receivable is recognised when the Target Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(g)(i)).

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and demand deposits with bank and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 2(g)(i).

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings is stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Company's accounting policy for borrowing costs (see note 2(s)).

(m) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

A defined contribution plan is a post-employment benefit plan under which an entity pay fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for the statutory defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised when the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue and other income

Income is classified by the Target Company as revenue when it arises from the sales of goods or the provision of services in the ordinary course of the Target Company's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Target Company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Target Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Target Company takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Target Company's revenue and other income recognition policies are as follows:

(i) Revenue from sales of electricity

Revenue from sales of electricity is recognised upon the transmission of electric power to the power grid companies, as determined based on the volume of electric power transmitted and the applicable fixed tariff rates agreed with the respective electric power grid companies periodically.

(ii) Capacity tariff revenue

Capacity tariff revenue is recognised on a time-apportioned basis by reference to the installed production capacity of individual power plants and the relevant capacity tariff rates.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(g)).

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and the Target Company will comply with the conditions attaching to them. Grants that compensate the Target Company for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Company for the cost of an asset are initially recognised as deferred income at fair value and then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Company initially recognises such non-monetary assets or liabilities.

(r) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

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

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

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

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

(i) The entity and the Target Company 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 the 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 entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the Target Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Determination of fair value

A number of the Target Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the Target Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(a) Trade and other receivables, trade and other payables

The carrying values of these financial assets and liabilities approximate their respective fair values due to the short maturities of these instruments.

(b) Interest-bearing borrowings

The carrying amounts of interest-bearing borrowings approximate their fair values based on the borrowing rates currently available for bank loans with similar terms and maturity.

4 Revenue

(a) Revenue

The principal activities of the Target Company are development, operation and management of power plant.

Revenue comprises volume tariff revenue and capacity tariff revenue.

– Volume tariff revenue represents the sale of electricity to power grid company.

– Capacity tariff revenue represents a subsidy income from power grid companies, following a reduction in the annual planned power generation volume of the Target Company 's power plants for supply to the power grid companies and changes in the electricity tariff policies applicable to the Target Company since 2015, pursuant to the "*Notice Regarding the Trial Implementation of Dual Tariff for Natural Gas Power Generating Units in Zhejiang Province*" issued by Zhejiang Provincial Price Bureau in June 2015.

Volume tariff revenue is recognised upon the transfer of products.

Capacity tariff revenue is recognised based on the installed capacity and capacity tariff on a monthly basis.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15			
Disaggregated by major products:			
Electricity			
– Volume tariff revenue	32,640	34,880	33,398
– Capacity tariff revenue	133,675	134,444	137,512
	166,315	169,324	170,910

The Target Company's customer base is concentrated and includes only one customer with whom transactions have exceeded 10% of the Target Company's revenues. In 2017, 2018 and 2019, volume tariff revenue and capacity tariff revenue from this customer amounted to RMB166,315,000, RMB169,324,000 and RMB170,910,000 respectively. Details of concentrations of credit risk arising from this customer are set out in note 19(a).

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Interest income	(997)	(1,011)	(296)
Finance income	(997)	(1,011)	(296)
Interest expense	30,546	26,158	20,424
Bank charges	8	8	10
Finance expenses	30,554	26,166	20,434
Net finance costs	29,557	25,155	20,138

(b) Personnel costs

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and other benefits	4,447	4,852	5,329
Contribution to defined contribution plan	755	788	666
	5,202	5,640	5,995

The Target Company participates in pension funds organised by the PRC government. According to the pension fund regulations, the Target Company is required to pay annual contributions. The Target Company remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Target Company has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) Other items

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Net loss on disposal of property, plant and equipment	–	–	334
Depreciation *(note 10)*			
– Owned property, plant and equipment	32,163	32,485	32,710
– Right-of-use assets – land use rights	359	359	361
Amortisation of intangible assets *(note 11)*	131	132	69
Auditor's remuneration – audit services	40	39	41

6 Other income

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Government grants	331	2,388	381

During the Relevant Periods, government grants represented unconditional government grants of RMB331,000, RMB2,388,000 and RMB381,000 awarded to the Target Company respectively.

7 Income tax in the statements of profit or loss and other comprehensive income

(a) Income tax in the statements of profit or loss and other comprehensive income represents:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
PRC Corporate Income Tax	12,243	13,211	16,941
Under/(over) provision in respect of prior years	9	108	(76)
	12,252	13,319	16,865
Deferred tax			
Origination and reversal of temporary differences	2,178	2,570	(154)
Total income tax in the statements of profit or loss and other comprehensive income	14,430	15,889	16,711

(i) The provision for PRC Corporate Income Tax is based on the Corporate Income Tax rates applicable to the Target Company located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

According to the PRC Corporate Income Tax Law, the Target Company is subject to the unified tax rate of 25% during the Relevant Periods.

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*
Profit before taxation	57,479	63,048	67,076
Notional tax on profit before taxation, calculated at the rates applicable to profits in the country concerned	14,370	15,762	16,769
Tax effect of non-deductible expenses	27	19	18
Tax effect of prior years' unrecognised temporary differences utilised	24	–	–
Under/(over) provision in respect of prior years	9	108	(76)
Actual tax expense	14,430	15,889	16,711

8 Directors' remuneration

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2017				
	Directors' fee *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	Total *RMB'000*
Directors					
Mr. Wei Junyong (appointed on 11 April 2017)	–	–	–	–	–
Mr. Gu Genyong (appointed on 11 April 2017)	–	–	–	–	–
Mr. Shen Junqiang (appointed on 11 April 2017)	–	–	–	–	–
Mr. Pei Shaohua (resigned on 11 April 2017)	–	–	–	–	–
Mr. Chai Wei (resigned on 11 April 2017)	–	–	–	–	–
Mr. Chen Xuejun (resigned on 11 April 2017)	–	–	–	–	–
	–	–	–	–	–

	Year ended 31 December 2018				
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Wei Junyong	–	–	–	–	–
Mr. Gu Genyong	–	–	–	–	–
Mr. Shen Junqiang	–	–	–	–	–
	–	–	–	–	–

	Year ended 31 December 2019				
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Wei Junyong	–	–	–	–	–
Mr. Gu Genyong	–	–	–	–	–
Mr. Shen Junqiang	–	–	–	–	–
	–	–	–	–	–

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments during the Relevant Periods, none individual is the director of the Target Company whose emolument is disclosed in note 8. The aggregate of the emoluments in respect of five individuals are as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and other benefits	687	726	817
Contributions to defined contribution plan	114	142	151
	801	868	968

The emoluments of the above individuals are within the band of HK$nil to HK$1,000,000.

10 Property, plant and equipment

	Buildings and plants RMB'000	Major generator equipment RMB'000	Other machineries RMB'000	Motor vehicles, furniture, fixtures, equipment and others RMB'000	Right-of-use Assets – land use rights RMB'000	Assets under construction RMB'000	Total RMB'000
Cost:							
At 1 January 2017	99,862	614,339	127,687	1,521	17,630	13,525	874,564
Additions	–	–	–	7	330	13	350
Transfer from assets under construction	39	–	12,667	–	–	(12,706)	–
At 31 December 2017 and 1 January 2018	99,901	614,339	140,354	1,528	17,960	832	874,914
Additions	–	–	–	28	–	3,948	3,976
Transfer from assets under construction	183	1,886	2,573	138	–	(4,780)	–
Disposals	–	–	–	(8)	–	–	(8)
At 31 December 2018 and 1 January 2019	100,084	616,225	142,927	1,686	17,960	–	878,882
Additions	–	–	10	14	123	10,441	10,588
Transfer from assets under construction	–	–	1,612	–	–	(1,612)	–
Disposals	–	–	(483)	(34)	–	–	(517)
At 31 December 2019	100,084	616,225	144,066	1,666	18,083	8,829	888,953
Accumulated depreciation:							
At 1 January 2017	(6,595)	(56,791)	(15,929)	(1,175)	(1,586)	–	(82,076)
Charge for the year	(3,204)	(19,799)	(8,954)	(206)	(359)	–	(32,522)
At 31 December 2017 and 1 January 2018	(9,799)	(76,590)	(24,883)	(1,381)	(1,945)	–	(114,598)
Charge for the year	(3,285)	(19,827)	(9,221)	(152)	(359)	–	(32,844)
Written back on disposals	–	–	–	8	–	–	8
At 31 December 2018 and 1 January 2019	(13,084)	(96,417)	(34,104)	(1,525)	(2,304)	–	(147,434)
Charge for the year	(3,298)	(19,847)	(9,511)	(54)	(361)	–	(33,071)
Written back on disposals	–	–	151	32	–	–	183
At 31 December 2019	(16,382)	(116,264)	(43,464)	(1,547)	(2,665)	–	(180,322)
Net book value:							
At 31 December 2019	83,702	499,961	100,602	119	15,418	8,829	708,631
At 31 December 2018	87,000	519,808	108,823	161	15,656	–	731,448
At 31 December 2017	90,102	537,749	115,471	147	16,015	832	760,316

11 Intangible assets

	Pollutant emission right	Software	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2017 and 31 December 2017	647	19	666
Additions	–	23	23
At 31 December 2018 and 31 December 2019	647	42	689
Accumulated amortisation:			
At 1 January 2017	(324)	(2)	(326)
Charge for the year	(129)	(2)	(131)
At 31 December 2017 and 1 January 2018	(453)	(4)	(457)
Charge for the year	(129)	(3)	(132)
At 31 December 2018 and 1 January 2019	(582)	(7)	(589)
Charge for the year	(65)	(4)	(69)
At 31 December 2019	(647)	(11)	(658)
Net book value:			
At 31 December 2019	–	31	31
At 31 December 2018	65	35	100
At 31 December 2017	194	15	209

The amortisation charge of RMB131,000, RMB132,000 and RMB69,000 for 2017, 2018 and 2019 which are included in "depreciation and amortisation" in the statements of profit or loss and other comprehensive income.

12 Inventories

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Spare parts	43,549	43,889	43,832
Materials and supplies	373	573	498
Low value consumables	77	52	58
	43,999	44,514	44,388

13 Trade and other receivables

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	13,033	19,438	18,300
Prepayments	147	7	8
Value added tax recoverable	30,382	6,920	–
Other receivables	488	425	622
	44,050	26,790	18,930

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

As at 31 December 2017, 2018 and 2019, aging analysis of trade receivables of the Target Company based on the invoice date is as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	13,033	19,438	18,300

All of the trade receivables of the Target Company as at 31 December 2017, 2018 and 2019 were fully settled up to the date of the issuance of the Historical Financial Information.

14 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank	33,001	18,775	12,478
Cash at other financial institutions	40,000	10,000	–
	73,001	28,775	12,478

Cash at other financial institutions represents the demand deposits at Wanxiang Finance.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Company's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Target Company's statements of cash flows as cash flows from financing activities.

	Interesting-bearing borrowings		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	644,390	566,250	450,250
Changes from financing cash flows:			
Proceeds from interest-bearing borrowings	–	–	15,000
Repayment of interest-bearing borrowings	(78,140)	(116,000)	(116,000)
Total changes from financing cash flows	(78,140)	(116,000)	(101,000)
At 31 December	566,250	450,250	349,250

15 Interest-bearing borrowings

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Current			
Unsecured loan from a related party (i) *(note 22)*	–	–	15,000
Current portion of non-current unsecured bank loans (ii)	116,000	116,000	116,000
	116,000	116,000	131,000
Non-current			
Unsecured bank loans (ii)	450,250	334,250	218,250
	566,250	450,250	349,250

(i) Unsecured loan from a related party is from Wanxiang Finance and is guaranteed by Zhejiang Donghai Dejia Wind Power Co., Ltd.("Donghai Dejia"), a fellow subsidiary of the Target Company, which bore an interest rate of 4.4805% per annum and was repayable on 26 November 2020.

(ii) Unsecured bank loans are guaranteed by Wanxiang Group Corporation, a related party of the Target Company, which bore an interest rate of 4.9% per annum and were repayable semi-annually till 28 November 2022.

The bank loans are subject to the fulfilment of financial covenants relating to certain financial ratios of the Target Company, which are commonly found in lending arrangements with financial institutions. As at 31 December 2017, 2018 and 2019, none of these covenants were breached.

(iii) The Target Company's interest-bearing borrowings were repayable as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	116,000	116,000	131,000
Over 1 year but less than 2 years	116,000	116,000	116,000
Over 2 years but less than 5 years	334,250	218,250	102,250
	450,250	334,250	218,250
	566,250	450,250	349,250

16 Trade and other payables

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	–	5,354	–
Construction payable	8,627	1,483	3,692
Other payables and accrued expenses	1,913	2,264	9,936
	10,540	9,101	13,628

As at 31 December 2017, 2018 and 2019, the aging analysis of trade and other payables of the Target Company based on the invoice date, is as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	5,354	–

17 Income tax in the statements of financial position

(a) Current taxation in the statements of financial position represents:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	892	4,368	7,748
Provision for PRC Corporate Income Tax for the year	12,252	13,319	16,865
Corporate Income Tax paid	(8,776)	(9,939)	(17,772)
Balance at 31 December	4,368	7,748	6,841

(b) Deferred tax liabilities recognised:

Deferred tax liabilities are attributable to the following:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment ("PPE")	(2,178)	(4,748)	(4,594)

(c) Movement in deferred tax balance during the year

	PPE
	RMB'000
At 1 January 2017	–
Recognised in statement of profit or loss	(2,178)
At 31 December 2017 and 1 January 2018	(2,178)
Recognised in statement of profit or loss	(2,570)
At 31 December 2018 and 1 January 2019	(4,748)
Recognised in statement of profit or loss	154
At 31 December 2019	(4,594)

18 Capital, reserves and dividends

(a) Components of the Target Company's capital and reserves

The opening and closing balances of each component of the Target Company's equity and a reconciliation between these amounts are set out in the statements of changes in equity.

(b) Registered capital and paid-in capital

Name of shareholder	2017, 2018 & 2019	
	RMB'000	*%*
Shanghai Pu-Xing Energy Limited	300,000	100

(c) Statutory surplus reserve

In accordance with the relevant PRC rules and regulations and the articles of association of the Target Company, the Target Company shall appropriate 10% of its annual statutory net profit as determined in accordance with Generally Accepted Accounting Principles of the PRC to the statutory surplus reserve account until the reserve balance reached 50% of its registered capital.

For the entity concerned, statutory surplus reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital.

(d) Dividends

Dividends payable to equity shareholders of the Target Company attributable to the previous financial year, approved and paid during the year

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year	55,028	32,618	–

(e) Capital management

The Target Company's primary objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern, so that it can continue to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holders' return that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Target Company monitors its capital structure on the basis of a net debt-to-total capital ratio. For this purpose, net debt is defined as total debt (which includes all interest-bearing borrowings which is shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity of the Target Company, as shown in the statement of financial position, plus net debt. The Target Company may adjust the amount of dividends paid to equity holders, issue new shares, return capital to equity holders or sell assets to reduce debt.

The Target Company's net debt-to-total capital ratio at the end of the current and previous reporting periods was as follows:

	Note	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*
Current liabilities:				
Interest-bearing borrowings	*15*	116,000	116,000	131,000
		116,000	116,000	131,000
Non-current liabilities:				
Interest-bearing borrowings	*15*	450,250	334,250	218,250
Total debt		**566,250**	**450,250**	**349,250**
Less: Cash and cash equivalents	*14*	(73,001)	(28,775)	(12,478)
Net debt		493,249	421,475	336,772
Total equity		345,239	359,780	410,145
Total capital		**838,488**	**781,255**	**746,917**
Net debt-to-total capital ratio		**58.83%**	**53.95%**	**45.09%**

19 Financial instruments

Financial risk management

Overview

The Target Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Target Company's exposure to each of the above risks, the Target Company's objectives, policies and processes for measuring and managing risk, and the Target Company's management of capital.

(a) Credit risk

Credit risk is the risk of financial loss to the Target Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Target Company's receivables from customers.

Exposure to credit risk

The Target Company's credit risk is primarily attributable to cash and cash equivalents and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Except for the financial guarantees given by the Target Company as set out in note 21(a), the Target Company does not provide any guarantees which would expose the Target Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 21(a).

Cash and cash equivalents of the Target Company are mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to the Target Company.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than the credit term given by the Target Company are generally requested to settle all outstanding balances before any further credit is granted. Normally, the Target Company does not obtain collateral from customers.

The Target Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Company has significant exposure to individual customers. At 31 December of 2017, 2018 and 2019, all the trade receivables were due from the Target Company's largest customer.

The Target Company measures loss allowances for trade receivables at an amount equal to lifetime ECLs. No ECLs was provided as at 31 December 2017, 2018 and 2019 as the Target Company's customers are limited and had no historical credit loss experience, and all the trade receivables as at 31 December 2019 were fully settled up to the date of the issuance of the Historical Financial Information. Further quantitative disclosures in respect of the Target Company's exposure to credit risk arising from trade and other receivables are set out in note 13.

(b) Liquidity risk

Liquidity risk is the risk that the Target Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Target Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Target Company's reputation.

The Target Company's policy is to regularly monitor its 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 longer term.

The following are the remaining contractual maturities of financial liabilities at the reporting date.

The amounts are gross and undiscounted, and include estimated interest payments:

	At 31 December 2017						
	Contractual undiscounted cash outflow						
	Within 3 months or on demand	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	6,842	64,660	6,277	64,020	496,675	638,474	566,250
Trade and other payables	10,540	–	–	–	–	10,540	10,540
	17,382	64,660	6,277	64,020	496,675	649,014	576,790

	At 31 December 2018						
	Contractual undiscounted cash outflow						
	Within 3 months or on demand	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	5,441	63,244	4,844	62,587	360,559	496,675	450,250
Trade and other payables	9,101	–	–	–	–	9,101	9,101
	14,542	63,244	4,844	62,587	360,559	505,776	459,351

	At 31 December 2019						
	Contractual undiscounted cash outflow						
	Within 3 months or on demand	More than 3 months but less than 6 months	More than 6 months but less than 9 months	More than 9 months but less than 1 year	More than 1 year but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	4,239	61,983	3,571	76,251	230,123	376,167	349,250
Trade and other payables	13,628	–	–	–	–	13,628	13,628
	17,867	61,983	3,571	76,251	230,123	389,795	362,878

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Target Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Target Company's businesses are conducted in the PRC. As the Target Company's PRC functional currency is RMB and the businesses are principally conducted in RMB, the Target Company considers the currency risk to be insignificant.

(ii) Interest rate risk

The Target Company's interest rate risk arises primarily from cash and cash equivalents and interest-bearing borrowings. The Target Company manages its interest rate exposure by maintaining a prudent mix of fixed and variable rate borrowings.

The Target Company is not exposed to significant interest rate risk for cash and cash equivalents because the interest rates of cash at bank are not expected to change significantly.

At the end of each of the Relevant Periods, the interest rate profile of the Target Company's interest-bearing financial instruments was as follows:

	2017		**2018**		**2019**	
	Effective interest rate %	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*
Variable rate borrowings:						
Loans from a related party	–	–	–	–	4.4805%	15,000
Bank loans	4.90%	566,250	4.90%	450,250	4.90%	334,250
		566,250		450,250		349,250

At 31 December 2017, 2018 and 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates for loans, with all other variables held constant, would have decreased/increased the Target Company's profit after tax and the Target Company's equity by approximately RMB4,247,000, RMB3,377,000 and RMB2,619,000, respectively.

The sensitivity analysis above indicates the instantaneous change in the Target Company's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the Relevant Periods and had been applied to re-measure those floating rate non-derivative instruments held by the Target Company's which expose the Target Company to cash flow interest rate risk at the end of the Relevant Periods. The impact on the Target Company's profit after tax and retained profits is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2017, 2018 and 2019.

20 Commitments

(a) Capital commitments outstanding at 31 December 2017, 2018 and 2019 not provided for in the Historical Financial Information were as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Authorised but not contracted for	5,884	9,876	4,595

21 Contingent liabilities

(a) Financial guarantees issued

As at the end of each of the Relevant Periods, the Target Company has issued certain guarantee in respect of different loans made by Wanxiang Finance to a fellow subsidiary of the Target Company as follows:

Name of borrower	Donghai Dejia
Relationship	The fellow subsidiary of the Target Company
Particulars of guarantee given	Guarantee given to Donghai Dejia in respect of loan borrowed from Wanxiang Finance
Maximum liability under the guarantee	
– at 1 January 2017	RMB15,000,000
– at 31 December 2017 *(note 1)*	RMB7,000,000
– at 31 December 2018	RMB7,000,000
– at 31 December 2019	RMB15,000,000
Amount paid or liability incurred under the guarantee for 2017, 2018 and 2019	Nil

Note 1: As at 31 December 2017, the cash deposits of RMB 7,000,000 of the Target Company was pledged as collateral for the loan of RMB 7,000,000 lent to Donghai Dejia by Wanxiang Finance. Such pledged deposit was released on 18 April 2018.

The guarantee is given without recourse to Donghai Dejia. The guarantee expired on 15 April 2020.

22 Related party transactions

For the Relevant Periods, transactions with the following parties are considered as related party transactions. The following is a summary of the significant related party transactions carried out by the Target Company with the below related parties during the Relevant Periods.

Name of party	**Relationship**
Shanghai Pu-Xing Energy Limited	Parent Company
China Wanxiang Holding Co., Ltd.	Ultimate controlling company of the Target Company
Wanxiang Group Corporation	A company controlled by the ultimate controlling party of the Target Company
Donghai Dejia	Fellow subsidiary
Wanxiang Finance	Fellow subsidiary

(a) Significant related party transactions and balances with related parties

In addition to demand deposits in Wanxiang Finance as disclosed in note 14(a), the guarantee received from Donghai Dejia and Wanxiang Group Corporation as disclosed in note 15, and the guarantee provided to Donghai Dejia as disclosed in note 21, the other significant transactions between the Target Company and the above related parties during the Relevant Periods are as follows:

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Loans from			
Wanxiang Finance	–	–	15,000
Interest expense			
Wanxiang Finance	–	–	65

The balances arising from the significant transactions between the Target Company and the above related parties as at 31 December 2017, 2018 and 2019 are as follows:

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Wanxiang Finance			
– Demand deposits	40,000	10,000	–
– Restricted cash deposits	7,000	–	–
– Unsecured loans	–	–	(15,000)

(b) Key management personnel remuneration

Remuneration for key management personnel of the Target Company, including certain of the highest paid employees as disclosed in note 9, is as follows:

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	236	385	449
Post-employment benefits	29	65	71
	265	450	520

Total remuneration is included in "personnel costs" *(see note 5(b))*.

23 Immediate and ultimate controlling party

At 31 December 2017, 2018 and 2019, the directors of the Target Company consider the ultimate controlling party of the Target Company to be Mr. Lu Weiding, an individual person.

As at 31 December 2017, 2018 and 2019, the directors of the Target Company consider the immediate and ultimate controlling company of the Target Company to be Shanghai Pu-Xing Energy Limited and China Wanxiang Holding Co., Ltd. respectively, which are both incorporated in the PRC. These entities do not produce financial statements available for public use.

24 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of the Historical Financial Information, the IASB has issued a number of amendments which are not yet effective for the year ended 31 December 2019 and which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Target Company.

	Effective for accounting periods beginning on or after
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform	1 January 2020
Amendments to IFRS 3, Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8, Definition of Material	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an Investor and its associate or joint venture	To be determined

The Target Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

25 Subsequent Events

(i) On 23 April 2020, the Target Company obtained the credit facility of RMB 170 million with the period of no less than 2 years from Wanxiang Finance.

(ii) On 6 May 2020, Zhejiang Puxing Deneng Natural Gas Power Co., Ltd., the subsidiary of Puxing Energy Limited, and Shanghai Pu-Xing Energy Limited entered into the share purchase agreement pursuant to which, Zhejiang Puxing Deneng Natural Gas Power Co., Ltd. agreed to acquire, and Shanghai Pu-Xing Energy Limited agreed to dispose of, the entire equity interests in the Target Company at a consideration of RMB333.40 million (subject to adjustment as detailed in the section headed "II. Very substantial acquisition and connected transaction" in the "Letter from the Board" contained in the Circular), subject to the terms and conditions of the share purchase agreement.

(iii) On 8 June 2020, the equity holder of the Target Company approved to declare a distribution of profit of RMB 82,306,000.00 to Shanghai Pu-Xing Energy Limited.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2019.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction

The following is the unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information"), which has been prepared by the Directors in accordance with Paragraphs 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of illustrating the effect of the Acquisition on the Group's financial position as at 31 December 2019, and the Group's financial performance and cash flows for the year ended 31 December 2019, as if the Acquisition had been completed on 31 December 2019 and 1 January 2019 respectively.

The Unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the consolidated statement of financial position of the Enlarged Group as at 31 December 2019 as if the Acquisition had been completed on 31 December 2019; and (ii) the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2019 as if the Acquisition had been completed on 1 January 2019.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimations and uncertainties. Because of its hypothetical nature, it may not give a true picture of the financial performance, cash flows or financial position of the Enlarged Group had the Acquisition been completed as of 1 January 2019, 31 December 2019 or at any future dates.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as of 31 December 2019 is prepared based on (i) the consolidated statement of financial position of the Group as of 31 December 2019 extracted from the published annual report of the Group for the year ended 31 December 2019; and (ii) the statement of financial position of the Target Company as of 31 December 2019 extracted from the Accountants' Report of the Target Company set out in Appendix II to this circular, after making other pro forma adjustments to the Acquisition, as if the Acquisition had been completed on 31 December 2019.

The unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2019 are prepared based on (i) the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Group for the year ended 31 December 2019 extracted from the published annual report of the Group for the year ended 31 December 2019; and (ii) the statement of profit or loss and other comprehensive income and the statement of cash flows of the Target Company for the year ended 31 December 2019 extracted from the Accountants' Report of the Target Company set out in Appendix II to this circular, after making other pro forma adjustments to the Acquisition, as if the Acquisition had been completed on 1 January 2019.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the published annual report of the Group for the year ended 31 December 2019, the Accountants' Report of the Target Company as set out in Appendix II to this circular, respectively, and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	The Group as at 31 December 2019	The Target Company as at 31 December 2019	Other pro forma adjustments		The Enlarged Group as at 31 December 2019
	Note 1	*Note 2*	*Note 3*	*Note 4*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	1,058,397	708,631	–	–	1,767,028
Intangible assets	1,291	31	–	–	1,322
Deferred tax assets	3,217	–	–	–	3,217
	1,062,905	708,662	–	–	1,771,567
Current assets					
Inventories	14,697	44,388	–	–	59,085
Trade and other receivables	44,126	18,930	–	–	63,056
Cash and cash equivalents	48,893	12,478	–	(5,100)	56,271
	107,716	75,796	–	(5,100)	178,412
Current liabilities					
Interest-bearing borrowings	303,431	131,000	–	–	434,431
Trade and other payables	52,979	13,628	82,306	–	148,913
Consideration payable	–	–	50,000	–	50,000
Lease liabilities	486	–	–	–	486
Current taxation	6,200	6,841	–	–	13,041
	363,096	151,469	132,306	–	646,871
Net current liabilities	(255,380)	(75,673)	(132,306)	(5,100)	(468,459)
Total assets less current liabilities	807,525	632,989	(132,306)	(5,100)	1,303,108

	The Group as at 31 December 2019	The Target Company as at 31 December 2019	Other pro forma adjustments		The Enlarged Group as at 31 December 2019
	Note 1	*Note 2*	*Note 3*	*Note 4*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Shareholder's loan	135,075	–	–	–	135,075
Interest-bearing borrowings	50,500	218,250	–	–	268,750
Lease liabilities	343	–	–	–	343
Deferred revenue	11,735	–	–	–	11,735
Deferred tax liabilities	33,209	4,594	–	–	37,803
Consideration payable	–	–	283,399	–	283,399
	230,862	222,844	283,399	–	737,105
NET ASSETS/ (LIABILITIES)	576,663	410,145	(415,705)	(5,100)	566,003
Capital and reserves					
Share capital	40,149	300,000	(300,000)	–	40,149
Reserves	535,983	110,145	(115,705)	(5,100)	525,323
Total equity attributable to equity shareholders of the Company/the Target Company	576,132	410,145	(415,705)	(5,100)	565,472
Non-controlling interests	531	–	–	–	531
TOTAL EQUITY	576,663	410,145	(415,705)	(5,100)	566,003

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	The Group for the year ended 31 December 2019	The Target Company for the year ended 31 December 2019	Other pro forma adjustments		The Enlarged Group for the year ended 31 December 2019
	Note 1	*Note 2*	*Note 4*	*Note 5*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	292,209	170,910	–	–	463,119
Operating expenses					
Fuel consumption	(72,908)	(34,766)	–	–	(107,674)
Depreciation and amortisation	(58,455)	(33,140)	–	–	(91,595)
Repairs and maintenance	(2,867)	(3,878)	–	–	(6,745)
Personnel costs	(28,903)	(5,995)	–	–	(34,898)
Administrative expenses	(22,618)	(3,263)	(5,100)	–	(30,981)
Sales related taxes	(3,073)	(1,961)	–	–	(5,034)
Other operating expenses	(1,773)	(1,074)	–	–	(2,847)
Profit from operations	101,612	86,833	(5,100)	–	183,345
Finance income	453	296	–	–	749
Finance expenses	(24,894)	(20,434)	–	(14,170)	(59,498)
Net finance costs	(24,441)	(20,138)	–	(14,170)	(58,749)
Other income	6,611	381	–	–	6,992
Profit before taxation	83,782	67,076	(5,100)	(14,170)	131,588
Income tax	(28,931)	(16,711)	–	3,543	(42,099)
Profit for the year	54,851	50,365	(5,100)	(10,627)	89,489
Attributable to:					
Equity shareholders of the Company/the Target Company	54,854	50,365	(5,100)	(10,627)	89,492
Non-controlling interests	(3)	–	–	–	(3)
Profit for the year	54,851	50,365	(5,100)	(10,627)	89,489

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	The Group for the year ended 31 December 2019	The Target Company for the year ended 31 December 2019	Other pro forma adjustments		The Enlarged Group for the year ended 31 December 2019
	Note 1	*Note 2*	*Note 4*	*Note 5*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year	54,851	50,365	(5,100)	(10,627)	89,489
Other comprehensive income for the year (after tax and reclassification adjustments):					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of overseas subsidiaries	(7,112)	–	–	–	(7,112)
Total comprehensive income for the year	47,739	50,365	(5,100)	(10,627)	82,377
Attributable to:					
Equity shareholders of the Company/the Target Company	47,742	50,365	(5,100)	(10,627)	82,380
Non-controlling interests	(3)	–	–	–	(3)
Total comprehensive income for the year	47,739	50,365	(5,100)	(10,627)	82,377

E. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

	The Group for the year ended 31 December 2019	The Target Company for the year ended 31 December 2019	Other pro forma adjustments			The Enlarged Group for the year ended 31 December 2019
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities						
Profit for the year	54,851	50,365	–	(5,100)	(10,627)	89,489
Adjustments for:						
Depreciation of property, plant and equipment	56,162	33,071	–	–	–	89,233
Depreciation of right-of-use assets						
– land use rights	1,337	–	–	–	–	1,337
– other properties	349	–	–	–	–	349
Amortisation of intangible assets	607	69	–	–	–	676
Net finance costs	24,441	20,138	–	–	14,170	58,749
Net loss on disposal of property, plant and equipment	1,120	334	–	–	–	1,454
Tax expense	28,931	16,711	–	–	(3,543)	42,099
	167,798	120,688	–	(5,100)	–	283,386
Changes in working capital:						
Decrease in inventories	132	127	–	–	–	259
(Increase)/decrease in trade and other receivables	(11,423)	7,860	–	–	–	(3,563)
Increase in trade and other payables and deferred revenue	2,907	3,454	–	–	–	6,361
Cash generated from operating activities	159,414	132,129	–	(5,100)	–	286,443
Interest paid	(12,741)	(20,599)	–	–	–	(33,340)
Income taxes paid	(21,823)	(17,772)	–	–	–	(39,595)
Net cash generated from operating activities	124,850	93,758	–	(5,100)	–	213,508

	The Group for the year ended 31 December 2019	The Target Company for the year ended 31 December 2019	Other pro forma adjustments			The Enlarged Group for the year ended 31 December 2019
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities						
Interest received	446	296	–	–	–	742
Payment for purchase of property, plant and equipment	(8,761)	(9,351)	–	–	–	(18,112)
Net cash used in investing activities	(8,315)	(9,055)	–	–	–	(17,370)
Cash flows from financing activities						
Capital element of lease rentals paid	(278)	–	–	–	–	(278)
Proceeds from interest-bearing borrowings	65,000	15,000	–	–	–	80,000
Repayment of interest-bearing borrowings	(180,500)	(116,000)	–	–	–	(296,500)
Dividends paid to equity shareholders of the Company/the Target Company	(26,724)	–	–	–	–	(26,724)
Net cash used in financing activities	(142,502)	(101,000)	–	–	–	(243,502)
Net decrease in cash and cash equivalents	(25,967)	(16,297)	–	(5,100)	–	(47,364)
Cash and cash equivalents at 1 January	74,860	28,775	–	–	–	103,635
Cash and cash equivalents at 31 December	48,893	12,478	–	(5,100)	–	56,271

F. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2019.

2. The amounts are extracted from the Accountants' Report of the Target Company as set out in Appendix II to this circular.

3. Pursuant to the share purchase agreement dated 6 May 2020 (the "Share Purchase Agreement"), the Group conditionally agreed to acquire the entire equity interests in the Target Company at the consideration of RMB333.40 million (subject to adjustment as detailed in the section headed "II. Very substantial acquisition and connected transaction" in the "Letter from the Board" contained in this Circular) (the "Consideration").

Pro forma adjustments made as at 31 December 2019 represent the following:

(i) The recognition of payables and the reduction in reserve in respect of the distribution of accumulated profit of RMB 82.31 million as at 31 December 2019 to Shanghai Pu-Xing Energy Limited (the "Vendor") as required under the Share Purchase Agreement.

(ii) Adjustment to equity for the difference between the present value of the Consideration and the share capital of the Target Company, calculated as follows, upon the completion of the Acquisition which is accounted for as business combination under common control as the Company and the Target Company are under the common control of the Vendor.

	RMB'000
Present value of Consideration payable for the acquisition of the Target Company *(a)*	333,399
Less: Share capital of the Target Company as at 31 December 2019	(300,000)
Adjustment to equity of the Enlarged Group	33,399

(a) The present value of total Consideration payable is RMB 333.40 million which is calculated based on its payment schedule and relevant interests, discounted using the effective interest rate of approximately 5% per annum in accordance with the Group's accounting policies, as if the Acquisition had been completed on 31 December 2019 and comprises:

- The first instalment payment of RMB50.00 million, which is recognised as consideration payable under current liabilities as at 31 December 2019; and

- The present value of the remaining instalment payments ("Outstanding Payments") of RMB 283.40 million to be made after 12 months, assuming no adjustment to the Consideration as detailed in the section headed "II. Very substantial acquisition and connected transaction" in the "Letter from the Board" contained in this Circular, which is recognised as consideration payable under non-current liabilities as at 31 December 2019.

4. The adjustment represents the estimated legal and professional agency service fees and other direct expenses in relation to the Acquisition of approximately RMB5.10 million as if the Acquisition had been completed on 1 January 2019. This adjustment will have no continuing effect on the Enlarged Group in the subsequent years.

5. The adjustment represents the annualised interest expenses of RMB14.17 million and the related income tax effect at 25% for the year ended 31 December 2019. The annualised interest expenses are calculated based on the present value of the Outstanding Payments of RMB283.40 million and the effective interest rate of 5% per annum as if the Acquisition had been completed on 1 January 2019.

   These adjustments will have continuing effects on the Enlarged Group in the subsequent years.

6. Apart from the above, no other adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 31 December 2019.

The following is the text of a report, prepared for inclusion in this circular, received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF PUXING ENERGY LIMITED (FORMERLY KNOWN AS "PUXING CLEAN ENERGY LIMITED")

We have completed our assurance engagement to report on the compilation of pro forma financial information of Puxing Energy Limited (formerly known as "Puxing Clean Energy Limited") (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2019 and the unaudited pro forma consolidated statement of profit or loss, pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated statement of cash flows for the year ended 31 December 2019, and related notes as set out in Part B to F of Appendix III to the circular dated 24 June 2020 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition to acquire the entire equity interests in Quzhou Puxing Gas Turbine Thermal Power Co., Ltd. (the "Proposed Acquisition") on the Group's financial position as at 31 December 2019 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Proposed Acquisition had taken place at 31 December 2019 and 1 January 2019, respectively. As part of this process, information about the Group's financial position as at 31 December 2019, the Group's financial performance and cash flows for the year ended 31 December 2019 has been extracted by the Directors from the consolidated financial statements of the Group for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2019 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

24 June 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management's discussion and analysis of the performance of the Group for each of the three years ended 31 December 2017, 2018 and 2019, as extracted from the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019.

I. For the year ended 31 December 2017

The management's discussion and analysis of the audited consolidated financial results and operations relating to the business of the Group for the year ended 31 December 2017 is set out below. Unless otherwise defined, capitalised terms in this section "I. For the year ended 31 December 2017" shall have the meaning as set out in the Annual Report 2017 of the Company.

Business review

The Group is mainly engaged in the development, operation and management of natural gas-fired power plants. The Group has four wholly-owned gas-fired power plants in Zhejiang province and the aggregate installed capacity was approximately 457MW.

During the year of 2017, with the increase in overall power demand in Zhejiang Province in 2017, the Group's overall production volume increased by 99.18% to 291,310MWh from 146,251MWh in the previous year. At the same time, in response to the increase in overall production volume, natural gas usage also increased by 101.45% to 68,815,000m^3 from 34,160,000m^3 in the previous year.

During the year under review (2017), the Price Bureau of Zhejiang Province announced that, starting from 1 September 2017, the volume tariff of natural gas power generating units would be adjusted downward by RMB0.013/kWh based on prices inclusive of value added tax ("**VAT**"). As a result, the volume tariff (inclusive of VAT) of Hangzhou Amber Blue Sky Natural Gas Power Generation Co., Ltd. ("**Blue Sky Power Plant**"), Zhejiang Amber De-Neng Natural Gas Power Generation Co., Ltd. ("**De-Neng Power Plant**") and Zhejiang Amber Jing-Xing Natural Gas Power Generation Co., Ltd. ("**Jing-Xing Power Plant**") under the Group was reduced to RMB0.567/kWh from RMB0.58/kWh in the previous year, representing a decrease of about 2.2%; the volume tariff of Amber (Anji) Gas Turbine Thermal Power Co., Ltd. ("**Anji Power Plant**") under the Group was cut to RMB0.507/kWh from RMB0.52/kWh in the previous year, representing a decrease of about 2.5%; and the capacity tariff remained unchanged. In addition, the Price Bureau of Zhejiang Province announced that, starting from 1 September 2017, the price of natural gas for non-residential purposes (inclusive of VAT) would be reduced by RMB0.10/m^3 to RMB2.21/m^3 from RMB2.31/m^3, representing a decrease of about 4.3%.

Equity installed capacity

As at 31 December 2017, the equity installed capacity of power plants held and operated by the Group is as follows:

Power plant	**Category**	**Installed capacity** *(MW)*	**Equity interest** *(%)*	**Equity installed capacity** *(MW)*
Blue Sky Power Plant	Natural gas	112	100	112
De-Neng Power Plant	Natural gas	112	100	112
Jing-Xing Power Plant	Natural gas	75	100	75
Anji Power Plant	Natural gas	158	100	158
Total		**457**		**457**

Production volume

In order to facilitate the trial implementation of the dual tariff policy for natural gas ("**Dual Tariff Policy**") by Zhejiang Province since 1 January 2015, the relevant government authorities have organised the 2017 production plan for natural gas power generating units based on the maximum demand within the power grid. In response to the increase in overall power demand in Zhejiang Province in 2017 and in order to meet the maximum demand within the power grid, the relevant government authorities made adjustments to the annual production plan of the four power plants under the Group, which increased the production tasks of the Group within the year accordingly. For the year ended 31 December 2017, the Group's production volume was 291,310MWh, representing an increase of 99.18% as compared to 146,251MWh in the previous year.

During the year of 2017, the Group's actual power generation hours are as follows:

Power plant	**2017** *(hour)*	**2016** *(hour)*	**Variance** *(%)*
Blue Sky Power Plant	110	263	–58.2
De-Neng Power Plant	302	185	63.2
Jing-Xing Power Plant	286	362	–21.0
Anji Power Plant	1,416	437	224.0
Total	**2,114**	**1,247**	**69.5**

According to the 2018 Unified Production Plan for Natural Gas Power Generating Units issued to the four power plants under the Group by Zhejiang Province Economic and Information Commission, the Group's planned generation hours for 2018 was as follows:

Power plant	**2018** *(Planned)* *(hour)*	**2017** *(Actual)* *(hour)*	**Variance** *(%)*
Blue Sky Power Plant	300	110	172.7
De-Neng Power Plant	300	302	–0.7
Jing-Xing Power Plant*	1,600	286	459.4
Anji Power Plant	1,000	1,416	–29.4
Total	**3,200**	**2,114**	**51.4**

* *As Jing-Xing Power Plant is a regional dispatchable power plant, the planned generation hours for 2018 is subject to change and the actual generation hours may be adjusted according to the overall local power demand.*

On-grid tariff

On-grid tariff is determined by the Price Bureau of Zhejiang Province after taking into account the types of fuel, cost structure and operating profit of similar power plants within the provincial grid. According to the "Notice Regarding the Trial Implementation of Dual Tariff for Natural Gas Power Generating Units in Zhejiang Province" issued by the Price Bureau of Zhejiang Province, the Dual Tariff Policy has been implemented in trial by Zhejiang Province since 1 January 2015. Affected by the relevant policy, the Group's revenue is mainly divided into two parts, namely volume tariff revenue and capacity tariff revenue.

In September 2017, the Price Bureau of Zhejiang Province announced that, starting from 1 September 2017, the volume tariff of natural gas power generating units would be adjusted downward by RMB0.013/kWh based on prices inclusive of VAT. As a result, the volume tariff (inclusive of VAT) of Blue Sky Power Plant, De-Neng Power Plant and Jing-Xing Power Plant under the Group was reduced to RMB0.567/kWh from RMB0.58/kWh in the previous year, representing a decrease of about 2.2%; the volume tariff of Anji Power Plant under the Group was cut to RMB0.507/kWh from RMB0.52/kWh in the previous year, representing a decrease of about 2.5%.

During the year of 2017, the capacity tariff (inclusive of VAT) of Blue Sky Power Plant, De-Neng Power Plant and JingXing Power Plant under the Group was RMB470/kW per year; the capacity tariff (inclusive of VAT) of Anji Power Plant under the Group was RMB680/kW per year. The capacity tariff was the same as the previous year and remained unchanged.

Fuel cost and natural gas usage

All the four power plants under the Group use natural gas as a fuel for power generation. Natural gas is also the only source of fuel for the Group and is provided by Zhejiang Province Natural Gas Development Company, the sole supplier of the Group.

The natural gas price is determined by the Price Bureau of Zhejiang Province. According to the "Notice of the Price Bureau of Zhejiang Province on Strengthening the Regulation of Natural Gas Prices for a Reduction in the Prices of Natural Gas for Non-residential Purposes" issued by the Price Bureau of Zhejiang Province in September 2017, starting from 1 September 2017, the natural gas price (inclusive of VAT) offered by Zhejiang Province Natural Gas Development Company to the Group was adjusted downward from RMB2.31/m^3 to RMB2.21/m^3, representing a decrease of about 4.3%.

During the year of 2017, the average unit fuel cost of the Group was approximately RMB484.57/MWh, representing an increase of 1.20% as compared to approximately RMB478.83/MWh in the previous year. With the increase in production volume during the year of 2017, natural gas usage also increased accordingly. For the year ended 31 December 2017, the Group's natural gas usage amounted to 68,815,000m^3, representing an increase of 101.45% as compared to 34,160,000m^3 in the previous year; fuel cost was RMB141,161,000, representing an increase of 101.57% as compared to RMB70,030,000 in the previous year.

Heat sales volume

Anji Power Plant under the Group formally put heating into production in August 2017, mainly providing steam for manufacturers in proximity to its heating pipelines. For the year ended 31 December 2017, the Group sold steam amounting to 34,683 tons at an average price (inclusive of VAT) of approximately RMB250/ton, generating revenue of RMB7,808,000 (2016: RMBnil).

Financial review

During the year under review (2017), benefitting from the increase in overall power demand in Zhejiang Province in 2017, the Group's revenue for the year increased by 24.78% when compared with the previous year. However, given that the Group decided to change the depreciation method from "unit-of-production" method to "straight-line" method for certain of its property, plant and equipment starting from 1 January 2017, depreciation for the year increased by approximately RMB34,645,000 as compared to that in last year, finally resulting in a decrease of RMB7,481,000 in the profit attributable to equity shareholders of the Company. For the year ended 31 December 2017, profit attributable to equity shareholders of the Company was RMB34,222,000 (2016: RMB41,703,000); basic and diluted earnings per share amounted to RMB0.075, representing a decrease of 17.58% as compared to RMB0.091 in the previous year.

Revenue

With the trial implementation of the Dual Tariff Policy by Zhejiang Province starting from 1 January 2015, the Group's revenue mainly comprises volume tariff revenue and capacity tariff revenue. During the year of 2017, as the Group formally put heating into production, revenue from sales of heat became part of the Group's revenue.

Revenue of the Group for the year ended 31 December 2017 amounted to approximately RMB348,364,000, representing an increase of RMB69,191,000 or 24.78% as compared to RMB279,173,000 in the previous year.

Operating expenses

During the year of 2017, the Group's operating expenses mainly comprised fuel cost, depreciation and amortisation, staff costs and administrative expenses. For the year ended 31 December 2017, operating expenses of the Group was RMB257,802,000, representing an increase of RMB91,442,000 or 54.97% as compared to RMB166,360,000 in the previous year. An increase in operating expenses was primarily due to the corresponding increase in production volume for the year as well as the increase in depreciation expenses arising from the change in depreciation method during the year of 2017.

Profit from operations

For the year ended 31 December 2017, profit from operations of the Group was RMB90,562,000, representing a decrease of RMB22,251,000 or 19.72% as compared to RMB112,813,000 in the previous year.

Finance costs

For the year ended 31 December 2017, net finance costs of the Group was RMB32,716,000, representing a decrease of RMB11,030,000 or 25.21% as compared to RMB43,746,000 in the previous year. The decrease in net finance costs was primarily attributable to the repayment of certain interest-bearing borrowings by the Group during the year of 2017, resulting in a decrease in relevant finance expenses for the year.

Income tax

For the year ended 31 December 2017, income tax of the Group amounted to RMB25,831,000, representing a decrease of RMB3,479,000 or 11.87% as compared to RMB29,310,000 in the previous year. The decrease in income tax was mainly due to the change of depreciation method made by the Group during the year of 2017, which increased the depreciation expenses of the power plants under the Group for the year and resulted in a decrease in the profit before taxation.

Earnings per share and final dividend

For the year ended 31 December 2017, profit attributable to equity shareholders of the Company was RMB34,222,000 (2016: RMB41,703,000); basic and diluted earnings per share amounted to RMB0.075, representing a decrease of 17.58% as compared to RMB0.091 in the previous year.

At the Board meeting held on 27 March 2018, the Board recommended the payment of a final dividend of HK$0.03 (2016: HK$0.03) per share for the year ended 31 December 2017. Based on the 458,600,000 (2016: 458,600,000) ordinary shares in issue as at 27 March 2018 (2016: 24 March 2017), the Board recommended the payment of a final dividend amounting to HK$13,758,000 (equivalent to approximately RMB11,118,000) (2016: HK$13,758,000 (equivalent to approximately RMB12,194,000)).

New development projects

Wind Power Project

In order to facilitate the clean energy development strategy of the "13th Five-Year Plan" of China, the Group will leverage on its internationally-advanced clean energy and energy saving technologies, combined with years of investment and development experience in the field of clean energy and its understanding on the development trend of clean energy to provide new, clean and efficient secondary energy. Currently, the Group is preparing for the construction of a new wind power project and relevant planning is in progress. The project has obtained the government's planning permission and is now in full swing. However, as the above project is still in the planning stage, the Group needs to successfully obtain various licences, permits and approvals issued by relevant government authorities and raise sufficient project development funds to effectively implement the project. Therefore, the wind power project mentioned above will depend on the actual development situation and may not be carried out in the end.

Photovoltaic Power Project

In line with the industrial policy and sustainable development strategy of China, and to explore clean energy sector apart from the natural gas business of the Group, superstructure construction of distributed photovoltaic power generating units (the "**Photovoltaic Project**") on top of the existing plant buildings has been gradually carried out by the Group with aims to provide the existing plants of the Group and power grids with new high-quality clean energy through the generation of photovoltaic power, and to open up new sources of income and room for business growth for the Group. Currently, the Group takes Jing-Xing Power Plant as the first pilot site for the Photovoltaic Project with planned construction capacity of approximately 500kW which represents approximately 0.11% of the existing equity installed capacity of the Group. The Photovoltaic Project is being constructed in two phases, and the first phase had been commenced in January 2018 with a construction capacity of approximately 217kW and an investment cost of approximately RMB1,600,000. It is expected to be connected to a power grid and put into operation around the end of March 2018. The Group expects that approximately 60% of the power to be generated will be used for the daily operation of Jing-Xing Power Plant, while the rest will be sold to the power grid. After Jing-Xing Power Plant achieved success from the Photovoltaic Project, the Group may plan to extend it to the remaining power plants of the Group.

Significant Investment Activities

During the year under review (2017), the Group had no significant investment activity.

Major Acquisitions and Disposals

During the year under review (2017), the Group had no major acquisition and disposal relating to its subsidiaries, associates and joint ventures.

Liquidity and Financial Resources

As at 31 December 2017, cash and cash equivalents of the Group amounted to RMB75,862,000 (31 December 2016: RMB120,582,000), including HK$22,097,000 (equivalent to approximately RMB18,471,000) and approximately US$500 (equivalent to approximately RMB3,000) (31 December 2016: HK$22,770,000 (equivalent to approximately RMB20,368,000) and approximately US$500 (equivalent to approximately RMB3,000)).

As at 31 December 2017, the Group had current assets of RMB125,763,000 (31 December 2016: RMB196,473,000), current liabilities of RMB299,629,000 (31 December 2016: RMB597,494,000) and net current liabilities of RMB173,866,000 (31 December 2016: RMB401,021,000), with a current ratio of 0.42 (31 December 2016: 0.33). The current ratio was improved mainly because some short-term loans due were repaid during the year and some short-term loans were restructured as long-term loans.

Sources of funds of the Group are mainly cash inflows from operating activities and loans granted by banks and related parties. The Group regularly monitors its gearing ratio to control its capital structure. At the same time, the Group also regularly monitors its liquidity position, projected liquidity requirements and its compliance with lending covenants, as well as maintains long-term sound relationships with major banks to ensure that it has sufficient liquidity to meet its working capital requirements and future development needs.

Debts

All the debts of the Group were denominated in Renminbi, Hong Kong Dollars and United States Dollars. As at 31 December 2017, the Group had total debts of RMB680,006,000 (31 December 2016: RMB840,526,000), including related party loans of US$19,700,000 (equivalent to approximately RMB128,724,000) (31 December 2016: US$19,700,000 (equivalent to approximately RMB136,659,000)) and shareholder's loan of HK$137,315,000 (equivalent to approximately RMB114,782,000) (31 December 2016: HK$134,562,000 (equivalent to approximately RMB120,367,000)).

Details of the Group's debts as at 31 December 2017 and 2016 were as follows:

	2017	2016
	RMB'000	*RMB'000*
Secured bank loans	–	63,000
Unsecured bank loans	–	32,500
Unsecured loans from related parties	293,724	281,659
Unsecured bank loans guaranteed by a related party	271,500	343,000
Shareholder's loan	114,782	120,367
Total	**680,006**	**840,526**

The above debts were repayable as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	253,224	534,026
Over 1 year but less than 2 years	87,500	74,500
Over 2 years but less than 5 years	339,282	218,500
Over 5 years	–	13,500
Total	**680,006**	**840,526**

Among the above debts, approximately RMB243,506,000 (31 December 2016: approximately RMB295,026,000) were fixed-rate debts and denominated in United States Dollar and Hong Kong Dollar; and the remaining debts were denominated in Renminbi and subject to adjustment in accordance with relevant regulations of the People's Bank of China, bearing interests calculated at an interest rate of 3.92% to 4.90% (2016: 3.92% to 4.90%) per annum.

Gearing Ratio

The Group's gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings and shareholder's loan, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt. As at 31 December 2017, the Group's gearing ratio was 53.68% (31 December 2016: 59.80%).

Capital Commitments

Details of the capital commitments of the Group as at 31 December 2017 are set out in note 23(a) to the consolidated financial statements of the Annual Report 2017 of the Company.

Pledge of Assets

As at 31 December 2016, the Group pledged certain of its property, plant and equipment and land use rights with a net book value of RMB185,448,000 to several banks as collaterals for bank loans of RMB63,000,000. As at 31 December 2017, none of the property, plant and equipment and land use rights was pledged as collaterals for bank loans.

Contingent Liabilities

As at 31 December 2017, the Group had no material contingent liability (2016: Nil).

Foreign Exchange Risk

The Group primarily operates its business in Mainland China and most of the transactions are settled in Renminbi. Except for certain cash, bank balances and borrowings that are denominated in Hong Kong Dollar and United States Dollar, the Group's assets and liabilities are mainly denominated in Renminbi. The Group considers that its current foreign exchange risk is insignificant and therefore has not hedged it through any derivatives for the time being. However, the management of the Group will continue to monitor its foreign currency exposure and will consider hedging significant foreign exchange risk should the need arise.

Employees and remuneration policy

As at 31 December 2017, the Group had a total of 257 employees, excluding 3 temporary staff (31 December 2016: 271, excluding 7 temporary staff). For the year ended 31 December 2017, total employees' remuneration (including directors' remuneration and benefits) was RMB26,133,000 (2016: RMB31,047,000). The Group determines employees' remuneration according to industry practices, financial performance and employees' performance. In addition, the Group provides employees with training and benefits, such as insurance, medical benefits and mandatory provident fund contributions, with an aim to retain talents of all levels for further contribution to the Group.

Prospects for 2018

The year of 2018 was the opening year of practising the spirit of the 19th National Congress of the Communist Party of China as well as a crucial year for the implementation of the "13th Five-Year Plan". To realise sound results for the energy sector throughout the year is of great significance in promoting the transformation and development of energy in the new era, improving the quality and efficiency of energy development, enhancing the support capacity and standards for energy security and fostering sustainable economic and social development.

Focusing on the clean energy industry, the Group pays close attention to the energy development strategy of China and faces with new development and opportunities. Among which, the following points in the "Guiding Opinion of the National Energy Administration for Energy Work in 2018" are particularly worthy of attention:

A. Solidify the base of energy supply

(i) Improve the support capacity for oil and gas supply

Adhere to the two-way strategy of "activating existing reserves and accelerating discovery of new reserves" in strengthening the exploration and development of conventional oil and gas resources to ensure basically stable oil production and relatively fast growth in natural gas production.

(ii) Speed up the construction of networks of oil and gas pipelines

Speed up the construction of trunk pipeline networks, regional branch pipeline networks and distribution pipeline networks to improve the distribution of LNG receiving stations and supporting transmission pipelines.

Being a clean energy supplier that uses natural gas as a fuel for power generation, the Group will certainly benefit from the enhancement of upstream natural gas supply and support capacity.

B. Promote the use of natural gas in an orderly manner

Promote the establishment of natural gas production, supply, storage and sales systems, accelerate the increase in reserve and productivity of domestic natural gas and spare no effort in promoting the interconnection of natural gas infrastructure to improve the peak adjusting system of natural gas reserve; develop distributed natural gas energy and natural gas peak adjusting stations in an orderly manner.

All the four natural gas power plants under the Group are peak adjusting power plants with mature capabilities and experience in peak adjusting power plants in terms of specification, investment, construction and operation. The Group will pay close attention to new potential investment opportunities, and will actively explore the feasibility of developing centralised energy supply in a distributed form of its power plants through natural gas power generation.

C. Intensify the reform of power system

Continuously improve the medium and long-term power trading mechanisms, further promote the building of an auxiliary power service market, actively and steadily push forward the building of trial spot power markets, standardise trading activities in the power market, accelerate the reform of the distribution and sale of electricity, perfect supporting policies for the pilot reform of incremental distribution network business, strengthen power market norms and guidance on the sales side, and increase the proportion of market-oriented power transactions to further reduce the energy costs of enterprises.

The Group will respond to the government's policies by leveraging on its own expertise to tube an active role to identify new opportunities for development in the reform of power system.

At the same time, according to the "13th Five-Year Plan for Energy Development", the "13th Five-Year Plan for Natural Gas Development" and other guidelines in China, China plans to develop natural gas as a main energy of the new generation, requiring the consumption of natural gas as a percentage of primary energy consumption to increase from 6.3% in 2016 to 8-10% in 2020. As estimated by the Group, the compound annual growth rate of national natural gas consumption will reach about 15% over the period from 2016 to 2020 accordingly. In 2017, the actual consumption of natural gas in China increased by 15.3%. It was expected that the growth in consumption will stay at around 15% in next year and the year after.

The Group, being a clean energy supplier focused on the development of natural gas as a fuel for power generation, would definitely contribute to the national goal of developing low-carbon environment amidst the world's main stream featuring the wide application of natural gas.

According to the "Three-Year Action Plan for the Development of Natural Gas in Zhejiang Province (2018-2020)", the plan proposed five priorities in the field of natural gas in Zhejiang Province for the next three years: firstly, to promote a natural gas supply revolution and build a new supply security system; secondly, to promote a natural gas consumption revolution and create a clean and efficient situation; thirdly, to promote a natural gas system revolution and establish a new mechanism which is fair and open; fourthly, to promote natural gas technological innovation and seize new technology development; fifthly, to strengthen natural gas safety management and improve the safety standard of pipelines.

After studying the plan, it was found that Zhejiang Province will continue to vigorously promote the development of the natural gas industry. The Group will continue to pay attention to the development of the sector and to seek new opportunities for development in this field.

In response to the above situation, the Group had full confidence in the industry and the future development of the existing power plants of the Group. The Group will continue to support and dedicate to the development of clean energy business and is confident that it will achieve satisfactory results and become one of the top clean energy suppliers in China.

In addition, the Group will make unremitting efforts on the research, development and investment in projects in relation to gas-fired power generation, as well as the investigation and research on clean energy projects other than natural gas with the hope that this can increase project reserves of the Group for its long-term sustainable development. At the same time, the Group will strive to study the potential for expanding its market share in the clean energy supply in China.

The Group will continue to strengthen its human resources and focus on the training of talents to build a team with outstanding members. At the same time, the Group will continue to implement its comprehensive budget management and upgrade its ability in plan execution and budget control in order to further enhance its management standard and secure stable, sustainable and healthy development of the Group.

II. For the year ended 31 December 2018

Unless otherwise defined, capitalised terms in this section "II. For the year ended 31 December 2018" shall have the meaning as set out in the Annual Report 2018 of the Company.

Business review

The Group is mainly engaged in the development, operation and management of natural gas-fired power plants. The Group has four wholly-owned gas-fired power plants in Zhejiang province and the aggregate installed capacity was approximately 458MW. During the year of 2018, the Group completed the rooftop photovoltaic projects of Zhejiang Amber Jing-Xing Natural Gas Power Generation Co., Ltd. ("**Jing-Xing Power Plant**") and Amber (Anji) Gas Turbine Thermal Power Co., Ltd. ("**Anji Power Plant**") which were successfully connected to the grid, contributing 578kW of installed capacity and new sources of income to the Group. Meanwhile, the Group's Anji Power Plant was officially put into operation of heat supply in August 2017 with a maximum heating capacity of approximately 160 tons/hour, thus developing a promising landscape for development.

With the overall economic restructuring and the structural adjustment in electricity procurement demand of Zhejiang Province in 2018, the relevant government departments in Zhejiang Province optimised and adjusted the annual generation schedules of the Group's four power plants to meet the peak demand of the power grid during the year of 2018. For the year ended 31 December 2018, the Group's overall power generation decreased by 69.62% to 88,505MWh as compared to 291,310MWh in the previous year. Meanwhile, in view of the overall decrease in electricity generation during the year of 2018, the consumption of natural gas for electricity generation decreased by 67.67% to 21,160,000m^3 from 65,442,000m^3 in the previous year. During the year of 2018, the Group actively explored heat users and achieved breakthroughs. For the year ended 31 December 2018, the Group sold 104,321 tons of steam, representing a significant increase of 69,638 tons, or 200.78%, as compared to 34,683 tons in the previous year.

During the year of 2018, with the increase of natural gas price, the Zhejiang Provincial Price Bureau and Zhejiang Provincial Development and Reform Commission accordingly adjusted the volume tariff of natural gas power generating units in May 2018 and October 2018 respectively, totalling RMB0.223/kWh (inclusive of value-added tax ("**VAT**")). Accordingly, the volume tariff (inclusive of VAT) of Hangzhou Amber Blue Sky Natural Gas Power Generation Co., Ltd. ("**Blue Sky Power Plant**"), Zhejiang Amber De-Neng Natural Gas Power Generation Co., Ltd. ("**De-Neng Power Plant**") and Jing-Xing Power Plant under the Group was increased from RMB0.567/kWh in the previous year to RMB0.79/kWh, representing an increase of approximately 39.33%; that of Anji Power Plant under the Group increased to RMB0.73/kWh from RMB0.507/kWh in the previous year, representing an increase of approximately 43.98%. In addition, the Zhejiang Provincial Price Bureau and Zhejiang Provincial Development and Reform Commission adjusted the price of natural gas for use in natural gas power generating units, raising the total price of natural gas for non-residential use (inclusive of VAT) by RMB1.06/m^3, from RMB2.21/m^3 to RMB3.27/m^3, representing an increase of approximately 47.96%. The capacity tariff of the Group's four power plants remained unchanged during the year of 2018. Since the Zhejiang Provincial Price Bureau adjusted the gas consumption price of the Group's natural gas power generating units by a margin larger than that of the volume tariff of the natural gas power generating units during the year of 2018, the Group's power generation cost increased, thus exerting pressure on the Group's gross profit. However, as the Group generated less electricity during the year of 2018, the above price adjustments did not have significant adverse impact on the Group's financial performance.

In addition, the Ministry of Finance and the State Taxation Administration issued a "Notice on Adjustment of VAT Rate" (Cai Shui [2018] No. 32) during the year of 2018, announcing the adjustment of VAT rate since 1 May 2018. As a result, the VAT rate on electricity sales and output and the VAT rate on natural gas inputs related to the Group's main businesses were reduced by one percentage point, from 17% to 16% and 11% to 10%, respectively. There was no significant impact on the Group's financial performance as the rate of output VAT and input VAT were reduced at substantially the same pace.

Equity Installed Capacity

As at 31 December 2018, the equity installed capacity of power plants owned and operated by the Group was as follows:

Power plant	**Category**	**Installed capacity** *(MW)*	**Equity interest** *(%)*	**Equity installed capacity** *(MW)*
Blue Sky Power Plant	Natural gas	112	100	112
De-Neng Power Plant	Natural gas	112	100	112
Jing-Xing Power Plant	Natural gas	75	100	75
	Photovoltaic	0.22	100	0.22
Anji Power Plant	Natural gas	158	100	158
	Photovoltaic	0.36	100	0.36
Total		**457.58**		**457.58**

On-grid Tariff

On-grid tariff is determined by the Zhejiang Provincial Price Bureau after taking into account the types of fuel, cost structure and operating profit of similar power plants within the provincial grid. According to the "Notice Regarding the Trial Implementation of Dual Tariff for Natural Gas Power Generating Units in Zhejiang Province" issued by the Zhejiang Provincial Price Bureau, a dual tariff policy for natural gas (the "**Dual Tariff Policy**") has been implemented in trial by Zhejiang Province since 1 January 2015. Affected by the relevant policy, the Group's tariff revenue is mainly divided into two parts, namely volume tariff revenue and capacity tariff revenue.

During the year of 2018, the Zhejiang Provincial Price Bureau announced in May 2018 that, starting from 1 May 2018, the volume tariff of natural gas power generating units would be adjusted upward by RMB0.021/kWh based on prices inclusive of VAT. As a result, the volume tariff (inclusive of VAT) of Blue Sky Power Plant, De-Neng Power Plant and Jing-Xing Power Plant under the Group was increased to RMB0.588/kWh from RMB0.567/kWh in the previous year, representing an increase of approximately 3.70%; that of Anji Power Plant under the Group was increased to RMB0.528/kWh from RMB0.507/kWh in the previous year, representing an increase of approximately 4.14%. In October of the same year, Zhejiang Provincial Development and Reform Commission issued a notice announcing an increase of RMB0.202/kWh in the volume tariff of natural gas power generating units for the period from 1 October 2018 to 31 December 2018. Therefore, the volume tariff (inclusive of VAT) for Blue Sky Power Plant, De-Neng Power Plant and JingXing Power Plant under the Group was increased from RMB0.588/kWh to RMB0.79/kWh, representing an increase of approximately 34.35%; that of Anji Power Plant under the Group increased from RMB0.528/kWh to RMB0.73/kWh, representing an increase of about 38.26%. The capacity tariff (inclusive of VAT) of the power plants under the Group remained unchanged during the year of 2018; the capacity tariff (inclusive of VAT) of Blue Sky Power Plant, De-Neng Power Plant and JingXing Power Plant was RMB470/kW/year, the capacity tariff (inclusive of VAT) of Anji Power Plant under the Group was RMB680/kW/year.

In January 2019, Zhejiang Provincial Development and Reform Commission issued a notice announcing the decrease of the volume tariff (inclusive of VAT) for natural gas power generating units for the period from 1 January 2019 to 31 March 2019 by RMB0.063/kWh and the capacity tariff remaining unchanged. Therefore, the volume tariff (inclusive of VAT) of Blue Sky Power Plant, De-Neng Power Plant and Jing-Xing Power Plant under the Group were reduced by approximately 7.97% from RMB0.79/kWh as mentioned above to RMB0.727/kWh; that of Anji Power Plant under the Group was reduced by approximately 8.63% from RMB0.73/kWh to RMB0.667/kWh.

Production volume

Natural Gas Power Generation

In order to facilitate the trial implementation of the Dual Tariff Policy by Zhejiang Province since 1 January 2015, the relevant government authorities have organised the 2018 production plan for natural gas power generating units based on the maximum demand within the power grid. In response to the adjustment to overall electricity procurement demand in Zhejiang Province in 2018 and in order to meet the maximum demand within the power grid, the relevant government authorities optimised and made adjustments to the annual production plan of the four power plants under the Group, which decreased the production tasks of the Group for the year accordingly. For the year ended 31 December 2018, the Group's production volume was 88,505MWh, representing a decrease of 69.62% as compared to 291,310MWh in the previous year.

During the year of 2018, the Group's actual power generation hours were as follows:

Power plant	**2018**	**2017**	**Variance**
	(hour)	*(hour)*	*(%)*
Blue Sky Power Plant	122	110	10.9
De-Neng Power Plant	177	302	–41.4
Jing-Xing Power Plant	119	286	–58.4
Anji Power Plant	291	1,416	–79.4
Equivalent to full load power generation	**193.7**	**637.5**	**–69.6**

According to the 2019 Unified Production Plan for Natural Gas Power Generating Units issued to the four power plants under the Group by the Energy Bureau of Zhejiang Province, the Group's planned generation hours for 2019 were as follows:

Power plant	**2019 Plan**	**2018 Plan**	**Variance**
	(hour)	*(hour)*	*(%)*
Blue Sky Power Plant	300	300	–
De-Neng Power Plant	300	300	–
Jing-Xing Power Plant*	1,000	1,600	–37.5
Anji Power Plant	600	1,000	–40.0
Equivalent to full load power generation	**517.6**	**755.4**	**–31.5**

* *As Jing-Xing Power Plant is a regional dispatchable power plant, the planned generation hours for 2019 are subject to change and the actual generation hours may be adjusted according to the overall local power demand.*

Photovoltaic Power Generation

Jing-Xing Power Plant and Anji Power Plant under the Group completed their rooftop photovoltaic projects and connected to the grid on 28 March 2018 and 13 June 2018, respectively, with respective installed capacity of 217kW and 361kW. The electricity generated was mainly used to supplement the auxiliary power rate of the power plant, and the remainder was sold to the power grid. For the year ended 31 December 2018, the Group generated approximately 420MWh of photovoltaic power (2017: nil), of which approximately 75MWh was sold to the power grid and contributed revenue of RMB106,000 to the Group.

Heat Sales Volume

Anji Power Plant under the Group formally put heating into production in August 2017 with a maximum heating capacity of approximately 160 tons/hour, mainly providing steam for manufacturers in proximity to its heating pipelines.

For the year ended 31 December 2018, the Group sold 104,321 tons of steam, representing a significant increase of 69,638 tons or 200.78% as compared to 34,683 tons in the previous year. The significant increase in heat sales was mainly due to the year-wide heating supply in 2018 and the Group's breakthrough performance in actively attracting additional heat users during the year of 2018. During the year of 2018, the average selling price of steam (inclusive of VAT) was approximately RMB271.18/ton, representing an increase of 8.47% as compared to approximately RMB250/ton in the previous year. During the year of 2018, the heating business generated revenue of RMB25,899,000 for the Group, representing an increase of 231.70% as compared to RMB7,808,000 in the previous year, and contributed a gross profit of RMB823,000 (2017: RMB283,000) and government grant of RMB4,983,000 (2017: RMBnil).

Fuel Cost and Natural Gas Usage

The Group's Blue Sky Power Plant, De-Neng Power Plant and Jing-Xing Power Plant all use natural gas as fuel for power generation, while Anji Power Plant uses natural gas as fuel for power generation and heating. Natural gas is the only source of fuel for the Group and is provided by Zhejiang Province Natural Gas Development Company, the sole supplier of the Group and Zhejiang Province.

Natural gas prices in Zhejiang region are determined by the Zhejiang Provincial Price Bureau. The Zhejiang Provincial Price Bureau issued a notice in May 2018 announcing that, with effect from 1 May 2018, the price of natural gas (inclusive of VAT) provided by Zhejiang Province Natural Gas Development Company to the Group was increased by approximately 4.52% from RMB2.21/m^3 in the previous year to RMB2.31/m^3. In October of the same year, Zhejiang Provincial Development and Reform Commission issued a notice announcing an increase of price (inclusive of VAT) of approximately 41.56% from RMB2.31/m^3 to RMB3.27/m^3 of natural gas provided by Zhejiang Province Natural Gas Development Company to the Group for the period from 1 October 2018 to 31 December 2018.

During the year of 2018, the Group's total consumption of natural gas was 31,122,000m^3 (including 9,962,000m^3 for heating), representing a decrease of 54.77% as compared to 68,815,000m^3 (including 3,373,000m^3 for heating) in the previous year. The Group's average unit fuel cost for power generation was approximately RMB524.93/MWh (2017: approximately RMB461.28/MWh), representing an increase of 13.80% as compared to that of the previous year. The average unit fuel cost for heating was approximately RMB219.93/ton (2017: approximately RMB195.63/ton), representing an increase of 12.42% in the previous year. Despite natural gas consumption for heating increased during the year of 2018 as a result of the increase in heat sales, the total natural gas consumption decreased during the year of 2018 compared with that of the previous year as electricity generation declined. For the year ended 31 December 2018, fuel costs amounted to RMB69,402,000, representing a decrease of 50.83% as compared to RMB141,161,000 in the previous year. Fuel costs accounted for 101.80% of the related revenue (i.e., volume tariff revenue and revenue from sales of heat) as compared to 103.47% in the previous year, decreased by 1.67%, mainly due to, with the support of a favorable clean energy policy, the Group's reduction in natural gas costs and production costs through the enhancement of production management efficiency in response to the peak adjustment required by the power grid in Zhejiang province and the optimisation of power generation mode and generation schedule.

In January 2019, Zhejiang Provincial Development and Reform Commission announced that, for the period from 1 January 2019 to 31 March 2019, the price of natural gas (inclusive of VAT) provided to the Group by Zhejiang Province Natural Gas Development Company was reduced from RMB3.27/m^3 to RMB2.97/m^3, representing a decrease of approximately 9.17%.

Financial review

The profit attributable to equity shareholders of the Company for the year ended 31 December 2018 was RMB45,580,000, representing a significant increase of RMB11,358,000, or 33.19%, as compared to RMB34,222,000 of the previous year, mainly attributable to the following factors: (i) production and related management costs were lowered due to the improvement in production and management efficiency; (ii) the Group proactively expanded heat users to increase heat supply and the rooftop photovoltaic power generation exceeded its expectation, thus increasing the revenue from related sectors and the government grants; (iii) with the support of a favorable clean energy policy, the pattern and plan of power generation were optimised in accordance with the peak adjustment required by power grid in Zhejiang province, thereby reducing the cost of natural gas; and (iv) reasonable arrangement for cash flows reduced the occupation of capital, thus saving financial expenses. For the year ended 31 December 2018, basic and diluted earnings per share of the Company amounted to RMB0.099, representing an increase of 32.00% as compared to RMB0.075 in the previous year.

Revenue

With the trial implementation of the Dual Tariff Policy by Zhejiang Province starting from 1 January 2015 and the commencement of operation of heat supply of Anji Power Plant under the Group in August 2017, the Group's revenue mainly comprised volume tariff revenue, capacity tariff revenue and revenue from sales of heat.

Although the revenue from sales of heat showed signs of robust growth, the volume tariff fell sharply due to the reduction in production volume within the year. For the year ended 31 December 2018, the revenue of the Group amounted to RMB281,625,000, representing a decrease of RMB66,739,000, or 19.16%, as compared to RMB348,364,000 in the previous year.

Operating Expenses

During the year of 2018, the Group's operating expenses mainly comprised fuel consumption, depreciation and amortisation, staff costs and administrative expenses. For the year ended 31 December 2018, the Group's operating expenses were RMB187,892,000, representing a decrease of RMB69,910,000, or 27.12%, from RMB257,802,000 in the previous year. The decrease in operating expenses was primarily due to the following factors: (i) production and related management costs of the Group were lowered due to the improvement in production and management efficiency; and (ii) with the support of a favorable clean energy policy, the pattern and plan of power generation were optimised in accordance with the peak adjustment required by power grid in Zhejiang province, thereby reducing the cost of natural gas.

Profit from Operations

For the year ended 31 December 2018, the Group's profit from operations was RMB93,733,000, representing an increase of RMB3,171,000, or 3.50%, from RMB90,562,000 in the previous year. The increase in profit from operations was primarily due to the following factors: (i) the Group expanded heat users to increase heat supply and the rooftop photovoltaic power generation exceeded its expectation, thus increasing the revenue from related sectors; and (ii) less operating expenses incurred for the year.

Finance Costs

For the year ended 31 December 2018, net finance costs of the Group were RMB29,396,000, representing a decrease of RMB3,320,000, or 10.15%, from RMB32,716,000 in the previous year. The decrease in net finance costs was primarily due to the Group repaid certain interest-bearing borrowings during the year of 2018 and reasonably arranged for cash flows to reduce the occupation of capital, thus saving financial expenses.

Income Tax

According to the Law of the People's Republic of China ("**PRC**") on Corporate Income Tax, the tax rate of all PRC subsidiaries under the Group was 25%. For the year ended 31 December 2018, income tax of the Group amounted to RMB24,736,000, representing a decrease of RMB1,095,000, or 4.24%, from RMB25,831,000 in the previous year. The decrease in income tax was mainly due to the fact that an additional provision for income tax of RMB1,140,000 was made in the previous year for the under provision in respect of prior years.

Earnings per Share and Final Dividend

For the year ended 31 December 2018, profit attributable to equity shareholders of the Group amounted to RMB45,580,000 (2017: RMB34,222,000). The basic and diluted earnings per share amounted to RMB0.099, representing an increase of 32.00% as compared to RMB0.075 in the previous year.

At the Board meeting held on 29 March 2019, the Board recommended the payment of a final dividend of HK$0.035 per share (2017: HK$0.03) for the year ended 31 December 2018. Based on the 458,600,000 (2017: 458,600,000) ordinary shares in issue as at 29 March 2019, the Board recommended the payment of a final dividend amounting to HK$16,051,000 (equivalent to approximately RMB13,768,000) (2017: HK$13,758,000 (equivalent to approximately RMB11,118,000)).

Significant Investment Activities

During the year under review (2018), the Group had no significant investment activity.

Major Acquisitions and Disposals

During the year under review (2018), the Group had no major acquisition and disposal relating to its subsidiaries, associates and joint ventures.

Liquidity and Financial Resources

As at 31 December 2018, cash and cash equivalents of the Group amounted to RMB74,860,000 (31 December 2017: RMB75,862,000).

As at 31 December 2018, the Group had current assets of RMB122,484,000 (31 December 2017: RMB125,763,000), current liabilities of RMB313,658,000 (31 December 2017: RMB299,629,000) and net current liabilities of RMB191,174,000 (31 December 2017: RMB173,866,000) with a current ratio of 0.39 (31 December 2017: 0.42). The current ratio was declined mainly because certain loans were transferred from non-current liabilities to current liabilities with reference to the repayment schedule during the year of 2018.

Sources of funds of the Group are mainly cash inflows from operating activities and loans granted by banks and related parties. The Group regularly monitors its gearing ratio to control its capital structure. At the same time, the Group also regularly monitors its liquidity position, projected liquidity requirements and its compliance with lending covenants, as well as maintains long-term sound relationships with major banks to ensure that it has sufficient liquidity to meet its working capital requirements and future development needs.

Debts

All the debts of the Group are denominated in Renminbi, Hong Kong Dollar and United States Dollar. As at 31 December 2018, the Group had total debts of RMB593,432,000 (31 December 2017: RMB680,006,000), including related party loans of US$19,700,000 (equivalent to approximately RMB135,205,000) (31 December 2017: US$19,700,000 (equivalent to approximately RMB128,724,000)) and shareholder's loan of HK$144,062,000 (equivalent to approximately RMB126,227,000) (31 December 2017: HK$137,315,000 (equivalent to approximately RMB114,782,000)).

Details of the Group's debts as at 31 December of 2018 and 2017 were listed below:

	2018	**2017**
	RMB'000	*RMB'000*
Unsecured loans from related parties	270,205	293,724
Unsecured bank loans guaranteed by a related party	197,000	271,500
Shareholder's loan	126,227	114,782
Total	**593,432**	**680,006**

The above debts were repayable as follows:

	2018	**2017**
	RMB'000	*RMB'000*
Within 1 year	257,705	253,224
Over 1 year but less than 2 years	169,000	87,500
Over 2 years but less than 5 years	166,727	339,282
Total	**593,432**	**680,006**

Among the above debts, approximately RMB261,432,000 (31 December 2017: approximately RMB243,506,000) were fixed-rated debts and denominated in United States Dollar and Hong Kong Dollar, and the remaining debts were denominated in Renminbi and subject to adjustment in accordance with relevant regulations of the People's Bank of China, bearing interests calculated at an interest rate of 3.92% to 4.90% (2017: 3.92% to 4.90%) per annum.

Gearing Ratio

The Group's gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings and shareholder's loan, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debts. As at 31 December 2018, the Group's gearing ratio was 48.87% (31 December 2017: 53.68%).

Capital Commitments

Details of the capital commitments of the Group as at 31 December 2018 are set out in note 24(a) to the consolidated financial statements of the Annual Report 2018 of the Company.

Pledge of Assets

As at 31 December 2018, none of the property, plant and equipment and land use rights was pledged as collaterals for bank loans (2017: Nil).

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liability (2017: Nil).

Exchange rate risk

The Group primarily operates its business in Mainland China and most of the transactions are settled in Renminbi. Except for certain cash, bank balances and borrowings that are denominated in Hong Kong Dollar and United States Dollar, the Group's assets and liabilities are mainly denominated in Renminbi. The Group considers that its current foreign exchange risk is insignificant and therefore has not hedged it through any derivative for the time being. However, the management of the Group will continue to monitor its foreign currency exposure and will consider hedging significant foreign exchange risks should the need arise.

Employees and remuneration policy

As at 31 December 2018, the Group had a total of 265 employees, excluding 1 temporary staff (31 December 2017: 257, excluding 3 temporary staff). For the year ended 31 December 2018, total employees' remuneration (including directors' remuneration and benefits) was RMB29,414,000 (2017: RMB26,133,000). The Group determines employees' remuneration according to industry practices, financial performance and employees' performance. In addition, the Group provides employees with training and benefits, such as insurance, medical benefits and mandatory provident fund contributions, with an aim to retain talents of all levels for further contribution to the Group.

Prospects for 2019

The Group would push forward with delicacy management, step up the management of human resources and deliver training sessions towards the essential goal of efficient management in 2019. Apart from the improvement in the pattern of power generation, the Group would actively attract additional heat users to create additional benefits and value for the shareholders.

Zhejiang Provincial Development and Reform Commission issued the "Comprehensive Pilot Plan for the Reform of Electric Power System in Zhejiang Province" on 5 January, 2018, stipulating an electricity market pattern applicable to Zhejiang Province for the sake of fostering a diversified market oriented to the needs of local market and establishing a provincial electric power market system laying more stress on electricity spot market than on the financial market of electric power. With the deepening of market economy reform, the electric system reform and energy supply reform in the interests of the Group is being accelerated. The Group would keep abreast with the latest development, proactively explore the application path for auxiliary power service market and spot a niche in the market based on its own conditions.

According to the national strategy for clean energy, the promotion of natural gas comes high on the agenda of energy transformation. The Group had full confidence in the development of the industry and the existing power plants. Being optimistic about the prospects of clean energy, the Group would attach importance to clean energy, base the power generation of natural gas upon its own conditions and branch out into other operations of clean energy. Moreover, the Group would push forward with the research, development and investment in projects of gas-fired power generation and make a survey of clean energy projects other than natural gas for future development.

Exuding confidence, the Group would establish itself as one of the best suppliers of clean energy in China.

III. For the year ended 31 December 2019

Unless otherwise defined, capitalised terms in this section "III. For the year ended 31 December 2019" shall have the meaning as set out in the Annual Report 2019 of the Company.

Business review

The Group is mainly engaged in the development, operation and management of natural gas-fired power plants. The Group has four wholly-owned gas-fired power plants in Zhejiang Province, with an aggregate installed capacity of approximately 458MW (including 578kW photovoltaic power generating units) with a maximum heating capacity of approximately 160 tons/hour. To better reflect the future strategic direction and business focus of the Group and the relationship between the Company and its controlling shareholder, the Company was approved by the shareholders by way of a poll on 4 July 2019 to change the name of the Company to "Puxing Clean Energy Limited 普星潔能有限公司" with effect from 11 July 2019.

With the overall economic restructuring and the structural adjustment in electricity procurement demand of Zhejiang Province in 2019, the relevant government departments in Zhejiang Province optimised and adjusted the annual production plan of the Group's four power plants to meet the maximum demand within the power grid during the year of 2019. For the year ended 31 December 2019, the Group's overall power generation decreased by 5.07% to 84,015MWh as compared to 88,505MWh in the previous year. Meanwhile, in view of the overall decrease in electricity generation during the year of 2019, the consumption of natural gas for electricity generation decreased by 8.82% to 19,293,888m^3 from 21,160,000m^3 in the previous year. During the year of 2019, benefiting from the rise in heat selling price, while the heat sales volume decreased by 6.41% to 97,639 tons from 104,321 tons in the previous year, the revenue from sales of heat still increased by 10.97% to RMB28,740,000 from RMB25,899,000 in the previous year, representing an increase of 7.05 percentage points in the gross margin to 10.23% from 3.18% in the previous year. Given the decrease in heat sales volume during the year of 2019, the consumption of natural gas for heating decreased by 7.89% to 9,175,600m^3 from 9,962,000m^3 in the previous year.

During the year of 2019, the Zhejiang Provincial Development and Reform Commission announced "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of Gate Station Price for Natural Gas and On-grid Tariff" (Zhe Fa Gai Jia Ge [2019] No. 25), "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of On-grid Tariff of Natural Gas Power Generating Units" (Zhe Fa Gai Jia Ge [2019] No. 210), "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of Gate Station Price for Natural Gas" (Zhe Fa Gai Jia Ge [2019] No. 200), "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of

Gate Station Price for Natural Gas'' (Zhe Fa Gai Jia Ge [2019] No. 484) and ''Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of On-grid Tariff of Natural Gas Power Generating Units'' (Zhe Fa Gai Jia Ge [2019] No. 491) on 19 January 2019, 16 April 2019, 12 April 2019, 29 November 2019 and 4 December 2019 respectively to adjust the volume tariff of natural gas power generating units and gate station price for natural gas (inclusive of value-added tax (''**VAT**'')). After several adjustments during the year of 2019, the volume tariff (inclusive of VAT) of each of Zhejiang Puxing Deneng Natural Gas Power Co., Ltd*(浙江普星德能然氣發電有限公司) (formerly known as ''Zhejiang Amber De-Neng Natural Gas Power Generation Co., Ltd.*(浙江琥珀德能天然氣發電有限公司)'') (''**Deneng Power Plant**''), Zhejiang Puxing Bluesky Natural Gas Power Co., Ltd.* (浙江普星藍天然氣發電有限公司)(formerly known as ''Hangzhou Amber Blue Sky Natural Gas Power Generation Co., Ltd.*(浙江琥珀藍天天然氣發電有限公司)'') (''**Bluesky Power Plant**'') and Zhejiang Puxing Jingxing Natural Gas Power Co., Ltd.* (浙江普星京興然氣發電有限公司)(formerly known as ''Zhejiang Amber Jing-Xing Natural Gas Power Generation Co., Ltd.*(浙江琥珀京興天然氣發電有限公司)'') (''**Jingxing Power Plant**'') under the Group was adjusted from RMB0.79/kWh at the beginning of the year to RMB0.686/kWh at the end of the year, representing a decrease of approximately 13.16%; the volume tariff (inclusive of VAT) of Puxing (Anji) Gas Turbine Thermal Power Co., Ltd.* (普星(安吉)燃機熱電有限公司)(formerly known as ''Amber (Anji) Gas Turbine Thermal Power Co., Ltd.*(琥珀(安吉)燃機熱電有限公司)'') (''**Anji Power Plant**'') was adjusted from RMB0.73/kWh at the beginning of the year to RMB0.626/kWh at the end of the year, representing a decrease of approximately 14.25%; the price of natural gas (inclusive of VAT) of power plants under the Group was also lowered from RMB3.27/m^3 at the beginning of the year to RMB2.88/m^3 at the end of the year, representing a decrease of approximately 11.93%; the capacity tariff of the power plants (inclusive of VAT) remained unchanged.

Besides, the Ministry of Finance, the State Administration of Taxation and Customs issued the ''Notice of Policies in Relation to the Deepening of Value-added Tax Reforms'' (Announcement 2019 No. 39) during the year of 2019 and announced that the VAT rates would be adjusted since 1 April 2019. In relation to the main business of the Group, the output VAT rate for electricity sales and heat sales was adjusted from 16% to 13% and the input VAT rate for natural gas was adjusted from 10% to 9%.

* *For identification purpose only*

Equity Installed Capacity

As at 31 December 2019, the equity installed capacity of power plants held and operated by the Group was as follows:

Power plant	**Category**	**Installed capacity** *(MW)*	**Equity interest** *(%)*	**Equity installed capacity** *(MW)*
Blue Sky Power Plant	Natural gas	112	100	112
De-Neng Power Plant	Natural gas	112	100	112
Jing-Xing Power Plant	Natural gas	75	100	75
	Photovoltaic	0.22	100	0.22
Anji Power Plant	Natural gas	158	100	158
	Photovoltaic	0.36	100	0.36
Total		**457.58**		**457.58**

On-grid Tariff

On-grid tariff is determined by the Zhejiang Provincial Development and Reform Commission after taking into account the types of fuel, cost structure and operating profit of similar power plants within the provincial grid. According to the "Notice Regarding the Trial Implementation of Dual Tariff for Natural Gas Power Generating Units in Zhejiang Province" issued by the Price Bureau of Zhejiang Province, a dual tariff policy for natural gas power generation (the "**Dual Tariff Policy**") has been implemented in trial by Zhejiang Province since 1 January 2015. Affected by the relevant policy, the Group's tariff revenue is mainly divided into two parts, namely volume tariff revenue and capacity tariff revenue.

During the year of 2019, according to the adjustments made by Zhejiang Provincial Development and Reform Commission under "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of Gate Station Price for Natural Gas and On-grid Tariff" (Zhe Fa Gai Jia Ge [2019] No. 25) and "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of Ongrid Tariff of Natural Gas Power Generating Units" (Zhe Fa Gai Jia Ge [2019] No. 210 and No. 491), the volume tariff (inclusive of VAT) of Deneng Power Plant, Bluesky Power Plant and Jingxing Power Plant under the Group was adjusted from RMB0.79/kWh at the beginning of the year to RMB0.686/kWh at the end of the year, representing a decrease of approximately 13.16%; the volume tariff (inclusive of VAT) of Anji Power Plant was adjusted from RMB0.73/kWh at the beginning of the year to RMB0.626/kWh at the end of the year, representing a decrease of approximately 14.25%. The capacity tariff (inclusive of VAT) of the power plants under the Group remained unchanged.

Production volume

Natural Gas Power Generation

In order to facilitate the trial implementation of the Dual Tariff Policy by Zhejiang Province, the relevant government authorities have organised the 2019 production plan for natural gas power generating units based on the maximum demand within the power grid. In response to the adjustment to overall electricity procurement demand in Zhejiang Province in 2019 and in order to meet the maximum demand within the power grid, the relevant government authorities optimised and made adjustments to the annual production plan of the four power plants under the Group, which decreased the production tasks of the Group for the year accordingly. For the year ended 31 December 2019, the Group's production volume by natural gas was 84,015MWh (equivalent to approximately 183.8 hours of full load power generation), representing a decrease of 5.07% as compared to 88,505MWh (equivalent to approximately 193.7 hours of full load power generation) in the previous year.

Photovoltaic Power Generation

The installed capacity of the Group's photovoltaic generating units is 578kW. The electricity generated was mainly used to supplement the auxiliary power consumption rate of the power plant, and the remainder was sold to the power grid. For the year ended 31 December 2019, the Group's photovoltaics production volume was approximately 645MWh (2018: approximately 420MWh), of which approximately 89MWh (2018: approximately 75MWh) was sold to the power grid. During the year of 2019, the Group saved power consumption cost of RMB302,000 (2018: RMB185,000) from the above photovoltaic power generation and realised a revenue from sales of electricity of RMB174,000 (2018: RMB106,000).

Heat Sales Volume

Anji Power Plant under the Group provided steam for manufacturers in proximity to its heating pipelines with a maximum heating capacity of approximately 160 tons/hour.

In order to increase profits from the heating business, the Group raised the heat selling price during the year of 2019. For the year ended 31 December 2019, the average selling price of steam (inclusive of VAT) was approximately RMB322.28/ton, representing an increase of 18.84% as compared to approximately RMB271.18/ton in the previous year. During the year of 2019, as export enterprises had less demand for heat consumption under the influence of Sino-US trade war, the Group's heat sales volume during the year of 2019 decreased by 6.41% to 97,639 tons as compared to 104,321 tons in the previous year. However, benefiting from the rise in heat selling price during the year of 2019, the Group's revenue from sales of heat for the year still increased by 10.97% to RMB28,740,000 as compared to RMB25,899,000 in the previous year, contributing a gross profit of RMB2,941,500 (2018: RMB823,000) to the Group, representing an increase in the gross margin of 7.05 percentage points to 10.23% from 3.18% in the previous year.

Fuel Cost and Natural Gas Usage

Bluesky Power Plant, Deneng Power Plant and Jingxing Power Plant under the Group all use natural gas as fuel for power generation, while Anji Power Plant uses natural gas as fuel for power generation and heating. Natural gas is the only source of fuel for the Group and is provided by Zhejiang Province Natural Gas Development Company, the sole supplier of the Group and in Zhejiang Province.

Natural gas prices in Zhejiang Province are determined by the Zhejiang Provincial Development and Reform Commission. According to the adjustments made by the Zhejiang Provincial Development and Reform Commission under "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of Gate Station Price for Natural Gas and On-grid Tariff" (Zhe Fa Gai Jia Ge [2019] No. 25) and "Notice from the Zhejiang Provincial Development and Reform Commission Regarding the Adjustment of Gate Station Price for Natural Gas" (Zhe Fa Gai Jia Ge [2019] No. 200 and No. 484) during the year of 2019, the price of natural gas (inclusive of VAT) of power plants under the Group was adjusted downward from RMB3.27/m^3 at the beginning of the year to RMB2.88/m^3 at the end of the year, representing a decrease of approximately 11.93%.

As the production volume and heat sales volume declined during the year of 2019, for the year ended 31 December 2019, the Group's total consumption of natural gas was 28,469,488m^3 (including 9,175,600m^3 for heating), representing a decrease of 8.52% as compared to 31,122,000m^3 (including 9,962,000m^3 for heating) in the previous year. The Group's average unit fuel cost for power generation was approximately RMB587.99/MWh (2018: approximately RMB524.93/MWh), representing an increase of 12.01% as compared to the previous year. The average unit fuel cost for heating was approximately RMB240.76/ton (2018: approximately RMB219.93/ton), representing an increase of 9.47% as compared to the previous year. The increase in both the average unit fuel cost for power generation and for heating was mainly due to the rise in average price of natural gas (inclusive of VAT) for the year as compared to the previous year. For the year ended 31 December 2019, fuel costs amounted to RMB72,908,000, representing an increase of 5.05% as compared to RMB69,402,000 in the previous year. Fuel costs accounted for 98.51% of the related revenue (i.e., volume tariff revenue (excluded revenue from photovoltaics power generation) and revenue from sales of heat), representing a decrease of 3.29 percentage points as compared to 101.80% in the previous year. Since both the on-grid tariff and price of natural gas applicable to the Group are VAT inclusive, such decrease was mainly attributable to the greater decrease in output VAT rate applicable to the relevant revenue than the input VAT rate applicable to the relevant costs during the year of 2019, as well as an increase in average selling price of steam (inclusive of VAT) as compared to the previous year.

Financial review

Benefiting from the decrease in finance expenses and the positive influences of adjustments in VAT rates during the year of 2019, the profit attributable to equity shareholders of the Company for the year ended 31 December 2019 was RMB54,854,000, representing a significant increase of RMB9,274,000, or 20.35%, as compared to RMB45,580,000 in the previous year. For the year ended 31 December 2019, the basic and diluted earnings per share of the Company amounted to RMB0.12, representing an increase of 21.21% as compared to RMB0.099 in the previous year.

Revenue

Revenue of the Group comprises volume tariff revenue, capacity tariff revenue and revenue from sales of heat.

Attributable to the decrease in output VAT rate applicable to the main business of the Group and an increase in the heat selling price during the year of 2019, revenue of the Group for the year ended 31 December 2019 amounted to RMB292,209,000, representing an increase of RMB10,584,000 or 3.76% as compared to RMB281,625,000 in the previous year.

Operating Expenses

During the year of 2019, the Group's operating expenses mainly comprised fuel consumption, depreciation and amortisation, staff costs and administrative expenses. For the year ended 31 December 2019, the Group's operating expenses were RMB190,597,000, representing an increase of RMB2,705,000 or 1.44% as compared to RMB187,892,000 in the previous year. The increase in operating expenses was a result of the increase in fuel cost as the relevant input VAT rate decreased and the rise in average price of natural gas (inclusive of VAT) for the year.

Profit from Operations

Benefiting from optimisation of power generation mode and the positive influences of adjustments in VAT rates, the Group's profit from operations for the year ended 31 December 2019 was RMB101,612,000, representing an increase of RMB7,879,000 or 8.41% as compared to RMB93,733,000 in the previous year.

Finance Costs

For the year ended 31 December 2019, net finance costs of the Group were RMB24,441,000, representing a decrease of RMB4,955,000 or 16.86% as compared to RMB29,396,000 in the previous year. The decrease in net finance costs was primarily due to the Group repaid certain interest-bearing borrowings during the year of 2019, resulting in a decrease in relevant finance expenses.

Income Tax

Pursuant to the Corporate Income Tax Law of the People's Republic of China (the "**PRC**"), the Group's subsidiaries in the PRC are subject to the unified tax rate of 25%. For the year ended 31 December 2019, income tax expenses of the Group amounted to RMB28,931,000, representing an increase of RMB4,195,000 or 16.96% as compared to RMB24,736,000 in the previous year. The increase in income tax expenses for the year was due to the increase in profit before taxation for the year.

Earnings per Share and Final Dividend

For the year ended 31 December 2019, profit attributable to equity shareholders of the Group amounted to RMB54,854,000 (2018: RMB45,580,000). The basic and diluted earnings per share amounted to RMB0.12, representing an increase of 21.21% as compared to RMB0.099 in the previous year.

At the board meeting held on 30 March 2020, the board recommended the payment of a final dividend of HK$0.04 per share (2018: HK$0.035) for the year ended 31 December 2019. Based on the 458,600,000 (2018: 458,600,000) ordinary shares in issue as at 30 March 2020, the board recommended the payment of a final dividend amounting to HK$18,344,000 (2018: HK$16,051,000).

Significant Investment Activities

During the year of 2019, the Group had no significant investment activity.

Major Acquisitions and Disposals

During the year of 2019, the Group had no major acquisition and disposal relating to its subsidiaries, associates and joint ventures.

Liquidity and Financial Resources

Cash and cash equivalents of the Group are denominated in Renminbi and Hong Kong Dollar. As at 31 December 2019, cash and cash equivalents of the Group amounted to RMB48,893,000 (31 December 2018: RMB74,860,000), of which RMB3,162,000 (31 December 2018: RMB2,977,000) was denominated in Hong Kong Dollar.

As at 31 December 2019, the Group had current assets of RMB107,716,000 (31 December 2018: RMB122,484,000), current liabilities of RMB363,096,000 (31 December 2018: RMB313,658,000) and net current liabilities of RMB255,380,000 (31 December 2018: RMB191,174,000) with a current ratio of 0.30 (31 December 2018: 0.39). The current ratio was declined mainly because certain loans were transferred from non-current liabilities to current liabilities with reference to the repayment schedule during the year of 2019.

Sources of funds of the Group are mainly cash inflows from operating activities and loans granted by banks and related parties. The Group regularly monitors its gearing ratio to control its capital structure. At the same time, the Group also regularly monitors its liquidity position, projected liquidity requirements and its compliance with lending covenants, as well as maintains long-term sound relationships with major banks to ensure that it has sufficient liquidity to meet its working capital requirements and future development needs.

Debts

All the debts of the Group are denominated in Renminbi, Hong Kong Dollar and United States Dollar. As at 31 December 2019, the Group had total debts of RMB489,835,000 (31 December 2018: RMB593,432,000), including related party loans of US$19,700,000 (equivalent to approximately RMB137,431,000) (31 December 2018: US$19,700,000 (equivalent to approximately RMB135,205,000)), shareholder's loan of HK$150,790,000 (equivalent to approximately RMB135,075,000) (31 December 2018: HK$144,062,000 (equivalent to approximately RMB126,227,000)) and lease liabilities of HK$400,000 (equivalent to approximately RMB358,000) (31 December 2018: HK$nil).

Details of the Group's debts as at 31 December of 2019 and 2018 were listed below:

	2019	**2018**
	RMB'000	*RMB'000*
Unsecured loans from related parties	234,431	270,205
Unsecured bank loans guaranteed by a related party	119,500	197,000
Shareholder's loan	135,075	126,227
Lease liabilities	829	–
Total	**489,835**	**593,432**

The above debts were repayable as follows:

	2019	**2018**
	RMB'000	*RMB'000*
Within 1 year	303,917	257,705
Over 1 year but less than 2 years	27,343	169,000
Over 2 years but less than 5 years	158,575	166,727
Total	**489,835**	**593,432**

Among the above debts, approximately RMB273,335,000 (31 December 2018: approximately RMB261,432,000) were fixed-rated debts, of which approximately RMB272,864,000 (31 December 2018: approximately RMB261,432,000) were denominated in United States Dollar and Hong Kong Dollar, and the remaining debts were denominated in Renminbi and subject to adjustment in accordance with relevant regulations of the People's Bank of China, bearing interests calculated at an interest rate of 3.92% to 4.90% (2018: 3.92% to 4.90%) per annum.

Gearing Ratio

The Group's gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including interest-bearing borrowings, shareholder's loan and lease liabilities, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity attributable to equity shareholders of the Company (as shown in the consolidated statement of financial position) plus net debt. As at 31 December 2019, the Group's gearing ratio was 43.35% (31 December 2018: 48.87%).

Capital Commitments

Details of the capital commitments of the Group as at 31 December 2019 are set out in note 25(a) to the consolidated financial statements of the Annual Report 2019 of the Company.

Pledge of Assets

As at 31 December 2019 and 2018, the Group had no assets pledged.

Contingent Liabilities

As at 31 December 2019 and 2018, the Group had no material contingent liability.

Exchange rate risk

The Group primarily operates its business in Mainland China and most of the transactions are settled in Renminbi. Except for certain cash, bank balances and borrowings that are denominated in Hong Kong Dollar and United States Dollar, the Group's assets and liabilities are mainly denominated in Renminbi. The Group considers that its current foreign exchange risk is insignificant and therefore has not hedged it through any derivative for the time being. However, the management of the Group will continue to monitor its foreign currency exposure and will consider hedging significant foreign exchange risks should the need arise.

Employees and remuneration policy

As at 31 December 2019, the Group had a total of 251 employees, excluding 2 temporary staff (31 December 2018: 265 employees, excluding 1 temporary staff). For the year ended 31 December 2019, total employees' remuneration (including directors' remuneration and benefits) was RMB28,903,000 (2018: RMB29,414,000). The Group determines employees' remuneration according to industry practices, financial performance and employees' performance. In addition, the Group provides employees with training and benefits, such as insurance, medical benefits and mandatory provident fund contributions, with an aim to retain talents of all levels for further contribution to the Group.

Prospects

In 2020, the Group will push forward lean management, step up the management of human resources and deliver training sessions towards the essential goals of efficient management and optimal electricity generation model. Meanwhile, the Group notices that the energy system reform in Zhejiang Province will be continued in 2020 to accelerate the progress in the reform of energy operation, electric system and natural gas system. As a private clean energy operator based in Zhejiang Province, the Group will move forward in parallel with the reform and pursue new business breakthroughs on the basis of its own development.

Although the Group is exposed to a relatively higher policy risk as the current capacity tariff, volume tariff and gate station price for natural gas are determined by the Zhejiang Provincial Development and Reform Commission instead of the market, the Group still believe that natural gas-fired power generating business remains to be a promising industry for development in the next five to ten years. As an enterprise focusing on energy and embracing the great energy era, the Group will transform into an integrated energy supplier with "Energy + Technology" as the core philosophy and dedicate ourselves to exploring the development of diversified energy business for injecting fresh impetus into the Group and enhancing its long-term growth potential and shareholders' value.

In the coming few years, apart from focusing on expanding its installed capacity and heating business, the Group will pursue new businesses such as auxiliary power service, energy contracts management and energy storage as its future development goals in order to maximize benefits and returns to shareholders with its utmost efforts.

In 2020, the epidemic of novel coronavirus has brought significant social and economic impacts to China and across the world. Nevertheless, the Group and its power plants have conducted epidemic prevention measures in strict accordance with relevant national policies. The epidemic has not caused any material and adverse impacts to the Group's operation so far and its production activities have remained normal.

Set out below is the management's discussion and analysis of the performance of the Target Company for the three years ended 31 December 2017, 2018 and 2019 with reference to the financial information of the Target Company disclosed in the section headed "Appendix II – Financial Information of the Target Company".

BUSINESS REVIEW

In 2017, the Target Company completed the construction of heating pipelines of total length of 2,856.3 meters, which mainly covers the Hangbu Industrial Park nearby its power plant, with cumulative investment of RMB12,637,000. In 2018, the Target Company completed the construction of 153kW rooftop photovoltaic power generating units and successfully connected to the grid, with cumulative investment of RMB1,001,000. In 2019, the Target Company was in progress of the construction of gas-fired boilers of maximum heating capacity of 40 tons/hour, with cumulative investment of RMB8,829,000.

With the overall economic restructuring and the structural adjustment in electricity procurement demand of Zhejiang Province during the years 2017 to 2019, the relevant government departments in Zhejiang Province optimised and adjusted the annual production plan of the Target Company to meet the maximum demand within the power grid during the relevant years. For the years ended 31 December 2017, 2018 and 2019, the overall power generation of the Target Company were 75,801MWh, 73,424MWh and 65,514MWh, respectively. Meanwhile, due to the changes in overall power generation during the relevant years, the consumption of natural gas for power generation also changed accordingly. For the years ended 31 December 2017, 2018 and 2019, the total consumption of natural gas were 15,843,499m^3, 15,523,000m^3 and 13,732,000m^3, respectively.

In 2018, the Ministry of Finance and the State of Taxation Administration issued a "Notice on adjustment of Value-added Tax Rate" (Cai Shui [2018] No.32) announcing the adjustment of value-added tax ("**VAT**") rates since 1 May 2018. As a result, in relation to the main businesses of the Target Company, the output VAT rate for electricity sales was adjusted from 17% to 16% and the input VAT rate for natural gas was adjusted 11% to 10%. In 2019, according to the "Notice of Policies in Relation to the Deepening of Value-added Tax Reforms" (Announcement 2019 No. 39) issued by the Ministry of Finance, the State Administration of Taxation and Customs issued the during the year, it was announced that the VAT rates would be adjusted from 1 April 2019. In relation to the main business of the Target Company, the output VAT rate for electricity sales was adjusted from 16% to 13% and the input VAT rate for natural gas was adjusted from 10% to 9%.

On-grid Tariff

On-grid tariff is currently determined by the Zhejiang Provincial Development and Reform Commission after taking into account the types of fuel, cost structure and operating profit of similar power plants within the provincial grid. According to the "Notice Regarding the Trial Implementation of Dual Tariff for Natural Gas Power Generating Units in Zhejiang Province" issued by the Price Bureau of Zhejiang Province, a dual tariff policy for natural gas power generation (the "**Dual Tariff Policy**") has been implemented in trial by Zhejiang Province since 1 January 2015. Affected by the relevant policy, the tariff revenue of the Target Company is mainly divided into two parts, namely volume tariff revenue and capacity tariff revenue.

Volume tariff revenue represents the sale of electricity to power grid company, and capacity tariff revenue represents a subsidy income from power grid company. In order to better play the role of the natural gas power generation units in Zhejiang Province, the Price Bureau of Zhejiang Province issued the Dual Tariff Policy in 2015 pursuant to the "Notice Regarding the National Development and Reform Commission on Relevant Issues Concerning the Regulation of On-grid Tariff Management for Natural Gas Power Generation" (Fai Gai Jia Ge [2014] No. 3009)(《國家發展改革委關於規範天然氣發電上網電價管理有關問題的通知》(發改價格[2014]3009號)). Certain specified natural gas power plants (including the Target Company) are unconditionally entitled to the capacity tariff revenue since 1 January 2015 based on their corresponding installed capacity and capacity tariff as specified and announced by the Price Bureau of Zhejiang Province and/or Zhejiang Provincial Development and Reform Commission from time to time. As such, the Target Company will continue to be entitled to the capacity tariff revenue after completion of the Acquisition by the Company.

During the years 2017 to 2019, the Price Bureau of Zhejiang Province and Zhejiang Provincial Development and Reform Commission made several adjustments to the volume tariff (inclusive of VAT). The applicable volume tariff (inclusive of VAT) and capacity tariff (inclusive of VAT) of the Target Company for each of the years 2017, 2018 and 2019 were as follows:

	2017	**2018**	**2019**
	RMB	*RMB*	*RMB*
Volume tariff (inclusive of VAT) (per kWh)	0.507-0.52	0.507-0.73	0.599-0.667
Capacity tariff (inclusive of VAT) (per kW/year)	680	680	680

PRODUCTION VOLUME

Natural Gas Power Generation

In order to facilitate the trial implementation of the Dual Tariff Policy by Zhejiang Province, the relevant government authorities organised the production plan for natural gas power generating units based on the maximum demand within the power grid for each of the years from 2017 to 2019. In response to the adjustments to the overall electricity procurement demand in Zhejiang Province during the years 2017 to 2019 and in order to meet the maximum demand within the power grid, the relevant government authorities optimised and made adjustments to the production plan of the Target Company for each of the relevant years. For the years ended 31 December 2017, 2018 and 2019, production volume of the Target Company by natural gas was 75,801MWh (equivalent to approximately 329.6 hours of full load power generation), 73,424MWh (equivalent to approximately 319.2 hours of full load power generation) and 65,514MWh (equivalent to approximately 284.8 hours of full load power generation), respectively.

Photovoltaics Power Generation

The Target Company completed the construction of rooftop photovoltaic power generating units with installed capacity of 153kW and successfully connected to the grid on 12 June 2018. The electricity generated is mainly used to supplement the auxiliary power consumption rate of the power plant, and the remainder will be sold to the power grid. For the years ended 31 December 2018 and 2019, the power generated was solely used by the Target Company, and saved power consumption cost of RMB52,000 and RMB87,000 respectively for the Target Company.

Fuel Cost and Natural Gas Usage

The Target Company uses natural gas as fuel for power generation. Natural gas is the only source of fuel for the Target Company and is provided by Zhejiang Province Natural Gas Development Company, the sole supplier of the Target Company and in Zhejiang Province.

Natural gas prices in Zhejiang region were determined by the Zhejiang Provincial Price Bureau and the Zhejiang Provincial Development and Reform Commission for the years 2017 to 2019. During the years 2017 to 2019, the Zhejiang Provincial Price Bureau and the Zhejiang Provincial Development and Reform Commission made several adjustments to the price of natural gas (inclusive of VAT). The applicable price of natural gas (inclusive of VAT) of the Target Company for each of the years 2017, 2018 and 2019 was as follows:

	2017	**2018**	**2019**
	RMB	*RMB*	*RMB*
Price of natural gas (inclusive of VAT) (per m^3)	2.21-2.31	2.21-3.27	2.70-2.97

As a result of the change in production volume during the relevant years, total consumption of natural gas by the Target Company for the years ended 31 December 2017, 2018 and 2019 were 15,843,499m^3, 15,523,000m^3 and 13,732,000m^3, respectively; average unit fuel cost for power generation per MWh were approximately RMB426.33, RMB489.16 and RMB530.67, respectively. The continuous rise in average unit fuel cost for power generation was mainly due to the continuous rise in average price of natural gas (inclusive of VAT) for the relevant years as compared to that of the corresponding previous year. For the years ended 31 December 2017, 2018 and 2019, the fuel cost of the Target Company were RMB32,316,000, RMB35,916,000 and RMB34,766,000, respectively; the ratio of fuel costs accounted for the related revenue (i.e., volume tariff revenue) were 99.01%, 102.97% and 104.10%, respectively. The increase in the ratio was mainly due to fluctuation in the price of natural gas (inclusive of VAT) and the volume tariff (inclusive of VAT) within the relevant years.

FINANCIAL REVIEW

Benefiting from the continuous decrease in finance expenses by year, reasonable adjustment in the power generation mode, and the positive impact of adjustments in VAT rates in 2019, the profit of the Target Company for the years ended 31 December 2017, 2018 and 2019 were RMB43,049,000, RMB47,159,000 and RMB50,365,000, respectively.

Revenue

Revenue of the Target Company comprises volume tariff revenue and capacity tariff revenue.

For the years ended 31 December 2017, 2018 and 2019, the revenue of the Target Company were RMB 166,315,000, RMB169,324,000 and RMB170,910,000, respectively. The overall increase in revenue was mainly attributable to reasonable adjustments in the power generation mode during the relevant years and the decrease in output VAT rate applicable to the revenue of the Target Company in 2018 and 2019.

Operating Expenses

During the years 2017 to 2019, operating expenses of the Target Company mainly comprised fuel consumption, depreciation and amortisation, repair and maintenance, personnel costs and administrative expenses. For the years ended 31 December 2017, 2018 and 2019, operating expenses of the Target Company were RMB79,610,000, RMB83,509,000 and RMB84,077,000, respectively. The increase in the operating expenses for the year ended 31 December 2018 was mainly due to the increase in fuel consumption for the year. The increase in operating expenses for the year ended 31 December 2019 was mainly due to the increase in sales related taxes as a result of the cumulative input VAT brought forward from previous years being fully utilized during the year.

Profit from Operations

Benefiting from optimisation of power generation mode and the positive impact of adjustments in VAT rates in 2018 and 2019, profit from operations of the Target Company for the years ended 31 December 2017, 2018 and 2019 were RMB86,705,000, RMB85,815,000 and RMB86,833,000, respectively.

Finance Costs

For the years ended 31 December 2017, 2018 and 2019, net finance costs of the Target Company were RMB29,557,000, RMB25,155,000 and RMB20,138,000, respectively. The continuous decrease in net finance costs was mainly due to the Target Company continually repaid its matured interest-bearing borrowings during the years 2017 to 2019, and resulting in a decrease in relevant finance expenses.

Income Tax

According to the Corporate Income Tax Law of the PRC, the unified tax rate of the Target Company was 25%. For the years ended 31 December 2017, 2018 and 2019, income tax of the Target Company was RMB14,430,000, RMB15,889,000 and RMB16,711,000, respectively. The continuous increase in income tax was mainly due to the increase in profit before taxation for the relevant years.

Significant Investment Activities

To expand the heating business, the Target Company invested RMB6,467,000, RMBnil and RMB8,829,000, respectively for the years ended 31 December 2017, 2018 and 2019 for construction of gas heating pipeline network and gas-fired boilers. In addition, the Target Company invested RMB1,001,000 for the construction of 153kW rooftop photovoltaic power generating units for the year ended 31 December 2018.

Major Acquisitions and Disposals

For the years ended 31 December 2017, 2018 and 2019, the Target Company had no major acquisition and disposal relating to its subsidiaries, associates and joint ventures.

Liquidity and Financial Resources

As at 31 December 2017, 2018 and 2019, cash and cash equivalents of the Target Company were denominated in Renminbi and amounted to RMB73,001,000, RMB28,775,000 and RMB12,478,000, respectively.

As at 31 December 2017, 2018 and 2019, the Target Company's current assets were RMB168,050,000, RMB100,079,000 and RMB75,796,000, respectively, current liabilities were RMB130,908,000, RMB132,849,000 and RMB151,469,000, respectively, net current assets/(liabilities) were RMB37,142,000, RMB(32,770,000) and RMB(75,673,000), respectively, current ratio were 1.28, 0.75 and 0.50, respectively. The continuous decrease in current ratio was mainly due to the capital investment in property, plant and equipment, the repayment of interest-bearing borrowings when matured, and the reallocation of borrowings from non-current liabilities to current liabilities according to their repayment schedules.

Sources of funds of the Target Company are mainly cash inflows from operating activities and loans granted by banks and related parties. The Target Company regularly monitors its gearing ratio to control its capital structure. At the same time, the Target Company also regularly monitors its liquidity position, projected liquidity requirements and its compliance with lending covenants, as well as maintains long-term sound relationships with major banks and related parties to ensure that it has sufficient liquidity to meet its working capital requirements and future development needs.

Debts

As at 31 December 2017, 2018 and 2019, the Target Company had total debts of RMB566,250,000, RMB450,250,000 and RMB349,250,000 respectively. Details of the debts are listed below:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Unsecured loan from a related party	–	–	15,000
Unsecured bank loans guaranteed by a related party	566,250	450,250	334,250
Total	566,250	450,250	349,250

The above debts are repayable as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	116,000	116,000	131,000
Over 1 year but less than 2 years	116,000	116,000	116,000
Over 2 year but less than 5 years	334,250	218,250	102,250
Total	566,250	450,250	349,250

As at 31 December 2017, 2018 and 2019, all the above debts were denominated in Renminbi and subject to adjustment in accordance with relevant regulations of the People's Bank of China, and bearing fixed interests at 4.90% per annum, 4.90% per annum and 4.4805% to 4.90% per annum, respectively.

Gearing Ratio

The gearing ratio of the Target Company is calculated as net debt divided by total capital. Net debt is calculated as all interest-bearing borrowings as shown in the statement of financial position, less cash and cash equivalents. Total capital is calculated as total equity of the Target Company as shown in the statement of financial position, plus net debts. As at 31 December 2017, 2018 and 2019, gearing ratio of the Target Company were 58.83%, 53.95% and 45.09%, respectively.

Capital Commitments

As at 31 December 2017, 2018 and 2019, capital commitments of the Target Company were RMB5,884,000, RMB9,876,000 and RMB4,595,000, respectively.

Pledge of Assets

As at 31 December 2017, cash deposits of RMB7,000,000 of the Target Company was pledged as collateral in respect of a loan of RMB 7,000,000 borrowed by its fellow subsidiary, Zhejiang Donghai Dejia Wind Power Generation Co., Ltd.*(浙江東海德迦風力發電有限公司)("**Donghai Dejia**") from Wanxiang Finance. As at 31 December 2018 and 2019, the Target Company had no assets pledged.

Contingent Liabilities

As at 31 December 2017, 2018 and 2019, the Target Company guaranteed certain loans for Donghai Dejia for a maximum liability of RMB7,000,000, RMB7,000,000 and RMB15,000,000, respectively. The guarantee of RMB15,000,000 as at 31 December 2019 had been released on 15 April 2020.

Exchange rate risk

The Target Company operates its business in PRC and all the transactions are settled in Renminbi and assets and liabilities of the Target Company are also denominated in Renminbi. The Target Company therefore considers that its current foreign exchange risk is insignificant and has not hedged it through any derivative for the time being. However, the management of the Target Company will continue to monitor its foreign currency exposure and will consider hedging significant foreign exchange risks should the need arise.

Employees and Remuneration Policy

As at 31 December 2017, 2018 and 2019, the Target Company had 63, 66 and 54 employees, respectively. For the years ended 31 December 2017, 2018 and 2019, total employees' remuneration were RMB5,202,000, RMB5,640,000 and RMB5,995,000, respectively. The Target Company determines employees' remuneration according to industry practices, its financial performance and employees' performance. In addition, the Target Company provides employees with training and benefits, such as social insurance and medical benefits, with an aim to retain talents of all levels for further contribution to the Target Company.

Prospects

In 2020, the Target Company will continue to push forward with delicacy management, step up the management of human resources, deliver training sessions towards the essential goal of efficient management, and strive to ramp up the heating business through actively attract heat users as a result in increasing annual heating sales of the Target Company.

The following is the text of a report prepared for the purpose of incorporation into this circular received from Roma Appraisals Limited in connection with its opinion on the value of the Assets as at 31 December 2019.

ROMA

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24 June 2020

Puxing Energy Limited
Room 706, 7/F., Albion Plaza
2-6 Granville Road,
Tsim Sha Tsui, Kowloon
Hong Kong

Dear Sir/Madam,

Re: Valuation of the Assets to be acquired by Zhejiang Puxing Deneng Natural Gas Power Co., Ltd., an indirect wholly-owned subsidiary of Puxing Energy Limited

In accordance with your recent instructions for us to value the major generator equipment (the "**Assets**") held by Quzhou Puxing Gas Turbine Thermal Power Co., Ltd. (the "**Target Company**") which are to be acquired by Puxing Energy Limited (the "**Company**"), its subsidiaries and/or associate companies (hereinafter together referred to as the "**Group**") located in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the valuation as at 31 December 2019 (the "**Date of Valuation**") for the purpose of incorporation in the circular of the Company dated 24 June 2020.

1. BASIS OF VALUATION

Our valuations of the Assets are our opinion of the market values of the concerned Assets which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our opinion of market value (in-use) is not intended to represent the amount that might be realized from piecemeal disposition of Assets in the open market or from alternative use of the Assets.

2. VALUATION METHODOLOGY

Valuation methodologies commonly adopted in the market for assets similar to the Assets are as follows:

2.1 The Sales Comparison Approach

The sales comparison approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised Assets relative to the market. Comparative assets for which there is established and used market may be appraised by this approach.

The Assets are specifically designed and used for natural gas-fired power generation relevant purposes. Each specialized manufacturer has own configuration to modify its equipment to accommodate the special products. The Assets cannot be used for other purposes. According to our market research, such specific type of assets is not readily available in the market. Therefore there are no comparative assets for which there is established and used market. As such, the sales comparison approach is not appropriate in the circumstances.

2.2 The Income Approach

The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of stable cash flow income.

The income approach involves adoption of assumptions in relation to the cash flow income generated from the Assets, not all of which can be easily and accurately quantified or ascertained. In the event of any such assumptions are found to be incorrect or unfounded, the valuation would be significantly affected. As such, the income approach is not appropriate in the circumstances.

2.3 The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the Assets appraised in accordance with current market prices for similar assets or by making reference to the purchase price of similar assets, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present (if applicable), whether arising from physical, functional or economic cause. The cost approach generally furnishes the most reliable indication of value for assets with specific purpose and without known used market.

Physical depreciation is the loss in value due to physical deterioration resulting from wear and tear in operation and exposure to elements. Deterioration due to age and deterioration due to usage are the main factors that affect physical condition.

Due to the specialized purpose-built nature of the Assets with specific requirements designed for natural gas-fired power generation facility and the lack of known used market as mentioned above, the cost approach would be appropriate for valuing the Assets.

We have considered linear depreciation method which is a method of calculating the depreciation of an asset, assuming the asset will lose an equal amount of value each year. The annual depreciation is calculated by subtracting the salvage value of the asset from purchase price, and then dividing this number by the estimated useful life of the asset.

2.4 Conclusion

For the reasons set out above, we consider it is more appropriate and in line with industry norm and market practice in the circumstances to adopt the cost approach.

3. THE ASSETS

The Assets mainly included machineries & equipment used for natural gas-fired power generation situated at Quzhou City, Zhejiang Province which were held by the Target Company as at the Date of Valuation. The Target Company is principally engaged in development, operation and management of power plant in the PRC.

In valuing the Assets, we have relied on the advice given by the Group that the Target Company has valid and enforceable title to the Assets and the records of the Assets including the costs and acquisition dates. The Assets were kept in reasonable condition and basically in good productive manner and good working conditions and capable of operating the purpose for which they were designed and produced.

The Assets mainly included major gasoline oil generators (燃氣機發電機組), steam generators (蒸汽發電機組), oil systems (滑油系統), control systems (控制系統), natural gas control system (天然氣控制系統), pressure transmitters systems (壓力變送系統), drainage systems (排污系統), steam extraction system (抽汽系統), boiler de-aeration system (鍋爐除氧系統), boiler drainage system (鍋爐疏水排污系統), boiler flue gas system (鍋爐烟氣系統), thermal control cabinet (熱能控制裝置), etc..

4. VALUATION CONSIDERATION AND ASSUMPTION

The Assets had been observed to be in generally good operating conditions. Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or other observable conditions distinguishing the appraised assets from Assets of like kind in new condition were noted and made part of our judgment in arriving at the value.

We have investigated market condition, discussed with local staff and professional and examined relevant documents and specification supplied to us. The situation being such, we have to a substantial extent relied upon our best judgment, while giving full consideration to the local condition. We have not investigated any safety regulations regarding the subject production. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with the relevant government legislation and guidance.

To the best of our knowledge, all data set forth in this report are true and accurate. The data, opinions, or estimates, identified as being furnished by others which have been used in formulating this analysis are gathered from reliable sources, yet, no guarantee is made nor liability assumed for the accuracy. We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the Assets are used.

It must be noted that our valuation is relied on the information supplied by the Group. We did not attempt to operate or test the Assets. In addition, our valuation has been prepared based upon the assumptions that the Assets will continue in the existing use and the Assets will be used in the existing state with the benefit of continuity of tenure of land and buildings in the foreseeable future.

We have not carried out a mechanical survey, nor have we inspected covered or inaccessible areas of the Assets. Also no investigation was conducted as to whether the operation of specific pieces of Assets complied with the relevant environmental standard and ordinances; we have assumed that the Assets continue and will continue to comply with the current environmental standards and ordinances. We have made no allowance in our valuation for costs, if any, associated with the disposal or handling of materials required to comply with current or changing environment legislations. We have made no investigation and assume no responsibility for titles or liabilities against the Assets.

The major assumptions adopted in this valuation included:

- The existing political, legal, and economic conditions in the jurisdiction where the Assets operate or will operate, i.e. the PRC, which will materially affect the revenues generated will have no material change;

- The interest rate, exchange rates, taxation laws, policy-base levies in the jurisdiction where the Assets operate or will operate will have no material change;

- Unless otherwise stated, the Target Company will fully comply with all applicable laws and regulations;

- The financial information in respect of the Assets has been prepared on a reasonable, accountable and stable basis, reflecting estimates by the management of the Target Company. The information has also been examined under due and careful considerations;

- There is no force majeure or unforeseeable circumstances which may materially affect Assets and the Target Company and economic conditions will not deviate significantly from reasonable economic forecasts;

- The information in relation to the Assets provided to us by the Group is true, complete and lawfully valid; and

- The adopted accounting policies, scope of business, mode of operation of the Assets and the Target Company will be consistent with the Group as at the Date of Valuation.

5. REMARKS

Our valuation is prepared in compliance with the International Valuation Standard published by International Valuation Standards Council.

We hereby confirm that we have neither present nor prospective interest in the Group, the Assets and the associated companies, or the values reported herein.

Unless otherwise stated, all monetary amounts stated in our valuation is in Renminbi (“**RMB**”).

6. VALUATION

Our opinion of the market value of the Assets, based on the aforesaid basis, assumptions and considerations, as at 31 December 2019 was **RMB520,000,000 (RENMINBI FIVE HUNDRED TWENTY MILLION)**.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Frank F. Wong
BA (Business Admin in Acct/Econ) MSc (Real Est)
MRICS Registered Valuer MAusIMM ACIPHE
Director

Note: Mr. Frank F. Wong is a Chartered Surveyor, Registered Valuer, Member of the Australasian Institute of Mining & Metallurgy and Associate of Chartered Institute of Plumbing and Heating Engineering with over 21 years of valuation, transaction advisory and project consultancy experience of properties in Hong Kong and 13 years of experience in valuation of properties and assets in the PRC as well as relevant experience in the Asia-Pacific region, Australia and Oceania-Papua New Guinea, Thailand, France, Germany, Poland, United Kingdom, United States, Abu Dhabi (UAE), Ukraine and Jordan.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors nor the chief executive has or is deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers.

The register of substantial Shareholders maintained by the Company pursuant to section 336 of the SFO (including interests filed with the Stock Exchange) shows that as at the Latest Practicable Date, the following persons (other than the Directors and the chief executive) had the following interests and short positions (if any) in the Shares and underlying Shares:

Name of Shareholder	Capacity/Nature of interests	Number of Shares/ underlying Shares held *(note 1)*	Percentage of issued share capital
Puxing International	Beneficial interest	300,000,000 (L)	65.42%
The Vendor *(note 2)*	Interests in a controlled corporation	300,000,000 (L)	65.42%
China Wanxiang Holding Co., Ltd. ("**China Wanxiang**") *(note 2)*	Interests in a controlled corporation	300,000,000 (L)	65.42%
Minsheng Life Insurance Co., Ltd. ("**Minsheng Life Insurance**") *(note 2)*	Interests in a controlled corporation	300,000,000 (L)	65.42%
Mr. Lu *(note 2)*	Interests in a controlled corporation	300,000,000 (L)	65.42%
Ms. Li Li *(note 3)*	Interest of spouse	300,000,000 (L)	65.42%
BC Greater China Opportunities Fund SPC – BC New Energy Fund SP ("**BC Fund SPC**")	Beneficial interest	35,122,000 (L)	7.66%
BC Capital Group Limited *(note 4)*	Interests in a controlled corporation	35,122,000 (L)	7.66%

Notes:

(1) The letter "L" denotes the entity/person's long position in the Shares.

(2) These Shares are held by Puxing International, which is owned as to 100% by the Vendor, which is owned as to 57.14% by China Wanxiang which in turn is, *inter alia*, 70.95% owned by Mr. Lu and 20% by Shanghai Guandingze Co., Ltd.* (上海冠鼎澤有限公司) ("**Shanghai Guandingze**"), a company owned as to 86.67% by Mr. Lu. The remaining 42.86% of the Vendor is owned by Minsheng Life Insurance, which is owned as to 37.32% by China Wanxiang and 6.52% by Shanghai Guandingze. Therefore, the Vendor, China Wanxiang, Minsheng Life Insurance and Mr. Lu are deemed to be interested in the Shares held by Puxing International.

(3) Ms. Li Li is the spouse of Mr. Lu and is therefore deemed to be interested in the said Shares in which Mr. Lu is deemed to be interested.

(4) These Shares are held by BC Fund SPC. BC Fund SPC is owned as to 100% by BC Asset Management Limited, which in turn is owned as to 100% by BC Capital Group Limited. BC Capital Group Limited is owned as to 68% by Fullsun International Capital Limited.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, so far as is known to the Directors, Mr. Wei Junyong (the chairman of the Board and an executive Director) is the president and a director of the Vendor and a director of Puxing International.

3. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

(a) None of the Directors has entered or proposed to enter into any service contract with the Enlarged Group, which is not expiring or determinable by the Enlarged Group within one year without payment of compensation (other than the payment of statutory compensation).

(b) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Enlarged Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Enlarged Group.

* *For identification purpose only*

(d) As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in a business which competed or might compete with the business of the Company.

4. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

5. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Lai Chi Fung, who is a fellow member of Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The head office of the Company is at Tower II, No. 32 Lingyin Road, Xihu District, Hangzhou 310007, Zhejiang Province, PRC and its principal place of business in Hong Kong is at Room 706, 7/F., Albion Plaza, 2-6 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong. The share registrar of the Company is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(c) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

6. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Donvex Capital Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Roma Appraisals Limited	Independent valuer

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any members of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice and opinion and references to its name in the forms and contexts in which it appeared.

7. MATERIAL CONTRACTS

The Enlarged Group has entered into the following material contracts (not being a contract entered into in the ordinary course of business) within the two years immediately preceding the date of this circular and up to the Latest Practicable Date:

(a) the Share Purchase Agreement;

(b) the guarantee letter dated 16 April 2019 provided by the Target Company to Wanxiang Finance in relation to a financing agreement entered into between Wanxiang Finance as lender and Zhejiang Donghai Dejia Wind Power Generation Co., Ltd.*（浙江東海德迦風力發電有限公司）(“**Donghai Dejia**”) as borrower of principal amount of RMB15,000,000; and

(c) the guarantee letter dated 29 March 2018 provided by the Target Company to Wanxiang Finance in relation to a financing agreement entered into between Wanxiang Finance as lender and Donghai Dejia as borrower of principal amount of RMB7,000,000.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company’s principal place of business in Hong Kong at Room 706, 7/F., Albion Plaza, 2-6 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong, from the date of this circular to 8 July 2020 (both days inclusive):

(a) the memorandum of association of the Company and the Articles of Association;

(b) the annual reports of the Company for the two years ended 31 December 2018 and 2019;

(c) the letter from the Independent Board Committee as set out in this circular;

(d) the letter from the Independent Financial Adviser as set out in this circular;

(e) the accountants' report on the Target Company from KPMG as set out in this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group from KPMG as set out in this circular;

(g) the valuation report of the major generator equipment owned by the Target Company as at 31 December 2019 prepared by Roma Appraisals Limited as set out in this circular;

(h) the written consent of each of the expects as referred to in the section headed "6. Qualifications and consents of experts" in this appendix;

(i) the material contracts referred to in the section headed "7. Material Contracts" in this appendix;

(j) the Financial Services Agreement;

(k) the circular of the Company dated 21 February 2020 in respect of major and continuing connected transactions in relation to the Financial Services Agreement; and

(l) this circular.

PUXING ENERGY LIMITED
普星能量有限公司

(Formerly known as "Puxing Clean Energy Limited 普星潔能有限公司")

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 90)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN an extraordinary general meeting ("**EGM**") of Puxing Energy Limited (formerly known as "Puxing Clean Energy Limited") (the "**Company**") will be held at Kowloon Room I, Mezzanine Floor, Kowloon Shangri-La, 64 Mody Road, Kowloon, Hong Kong on Thursday, 30 July 2020 at 10:30 a.m. (or any adjournment thereof) for the purpose of considering and, if thought fit, approve the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the Share Purchase Agreement dated 6 May 2020 referred to in section headed "II. Very substantial acquisition and connected transaction" in the "Letter from the Board" contained in the circular (the "**Circular**") of which this notice forms part, and the transaction contemplated thereunder be and are hereby approved."

By Order of the Board
Puxing Energy Limited
WEI Junyong
Chairman

Hong Kong, 24 June 2020

Principal Place of Business in Hong Kong:
Room 706, 7/F., Albion Plaza
2-6 Granville Road
Tsim Sha Tsui, Kowloon
Hong Kong

Registered Office:
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Notes:

1) Any member of the Company (the "**Shareholder(s)**") entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a Shareholder.

2) The form of proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

3) Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the EGM or any adjournment thereof if so wish and in such event, the form of proxy shall be deemed to be revoked.

4) Where there are joint Shareholders, any one of such joint Shareholders may vote, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint Shareholders be present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint Shareholders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

5) The form of proxy and (if required by the board (the "**Board**") of directors (the "**Directors**") of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than forty-eight (48) hours before the time appointed for the holding of the EGM or any adjournment thereof.

6) The register of members of the Company will be closed for registration of transfer of shares from Monday, 27 July 2020 to Thursday, 30 July 2020 (both days inclusive), for the purpose of determining Shareholders' entitlement to attend and vote at the EGM, during which period no transfer of shares of the Company will be registered. In order to eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712- 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Friday, 24 July 2020.

7) If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning Signal is in force within a period of two (2) hours before the commencement of the EGM, the EGM will be postponed or adjourned. The Company will post an announcement on the websites of the Company (www.puxing-energy.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) to notify Shareholders of the date, time and place of the rescheduled meeting. The EGM will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the EGM under bad weather condition bearing in mind their own situations.

8) In order to prevent and control the spread of the COVID-19, the Company has adopted certain precautionary measures for the EGM, for details please refer to the precautionary measures for the EGM set out in the circular of the Company dated 24 June 2020. The Board strongly encourages the Shareholders not to physically attend the EGM, and the Board respectfully requests that, for the same reason, the Shareholders to appoint the chairman of the EGM as their proxy rather than a third party to attend and vote on their behalf at the EGM (or any adjournment thereof).

9) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

As at the date of this notice, the Board comprises five Directors, of whom two are executive Directors, namely Mr. Wei Junyong and Mr. Gu Genyong; and three are independent non-executive Directors, namely Mr. Tse Chi Man, Mr. Yao Xianguo and Mr. Yu Wayne W.