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OVERVIEW

We are a market leader among independent flue gas treatment integrated services providers in China, namely private integrated environment protection companies providing flue gas treatment services not controlled by any power group. We have achieved a leading market position in the flue gas treatment industry, and have been gradually expanding into other environmental protection and energy saving areas. We are committed to becoming a world-class environmental industrial group. The table below sets forth our rankings and market shares in terms of cumulative installed capacity in operation by the end of 2016.

	<u>Ranking</u>	<u>Market Share</u>
Independent flue gas desulfurization EPC service provider	1st	12.2%
Flue gas desulfurization EPC service provider	2nd	7.6%
Independent desulfurization concession service provider	3rd	10.4%
Denitrification concession operation service provider	3rd	6.5%
Desulfurization operation and maintenance service provider	4th	9.5%

We commenced our flue gas treatment business in 2003 and we are among the first independent participants in the flue gas treatment industry in China. Our services cover the whole industry-chain of the flue gas treatment industry, from project designing, equipment procurement and facilities construction to operation and maintenance and concession operation of flue gas treatment facilities. Moreover, our projects have a broad geographic coverage, covering almost 30 provinces, municipalities and autonomous regions in China. Furthermore, we have been expanding our business overseas, including in Europe, South Asia, Latin America, Africa and Southeast Asia. Our solid industry experience, strict quality control, outstanding research and development capabilities, advanced core technologies and diversified business models have enabled us to maintain a market-leading position over the years.

In addition to our industry-leader position in the flue gas desulfurization EPC market, we also enjoy a leading position in both the flue gas denitrification EPC market and for our flue gas desulfurization and denitrification concession operation services. According to Frost & Sullivan, we are:

- the fourth largest independent flue gas denitrification EPC service provider for coal-fired power plants and the tenth largest flue gas denitrification EPC service provider for coal-fired power plants in the PRC, as measured by cumulative installed capacity in operation as of December 31, 2016;
- the third largest independent flue gas desulfurization concession operation service provider for coal-fired power plants and the seventh largest flue gas desulfurization concession operation service provider for coal-fired power plants in the PRC, as measured by cumulative capacity in operation as of December 31, 2016; and
- the third largest independent flue gas denitrification concession operation service provider for coal-fired power plants and the eighth largest flue gas denitrification concession operation service provider for coal-fired power plants in the PRC, as measured by cumulative capacity in operation as of December 31, 2016.

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During the Track Record Period, we had received numerous awards, evidencing our leading position in the industry and continuous pursuit of providing high quality services:

Year of grant	Awards / ranking / honor	Activities / organizers / media
2014	<p>“National Torch Plan Key High and New Technology Enterprise” (國家火炬計劃重點高新技術企業)</p> <p>“National Outstanding Contributor to Air Pollution Reduction for 2014” (2014年全國大氣污染減排突出貢獻單位)</p>	<p>Ministry of Science and Technology of the PRC</p> <p>Environmental Protection Magazine, by the Ministry of Environmental Protection</p>
2015	<p>Zhejiang Liuheng Power Plant project (2*1000MW) was granted the “National Quality Engineering Golden Award for 2014-2015” (2014-2015年度國家優質工程金質獎)</p>	<p>China Association of Construction Enterprise Management</p>
2016	<p>Huainan Pingwei phase III project (2*1000MW) was granted the “Quality Project Award (standalone) for 2016” (2016年度優質工程獎(單項))</p>	<p>China Electric Power Construction Association</p>

We provide a variety of technologies and services to coal-fired power plants to reduce pollutant emissions and improve their production efficiency. We have strategically leveraged our solid experience and professional capabilities in R&D and design, construction and implementation, operation and management to achieve synergies among our various business segments and to provide integrated environmental protection and energy conservation solutions to our customers. Particularly, we provide a range of services primarily for controlling air pollution at coal-fired power plants, including desulfurization services, denitrification services, dust removal services, and integrated flue gas treatment services. In addition, we also provide water treatment services for power plants. We provide environmental protection services through the application of various business models, mainly including environmental protection facility engineering, operation and maintenance, and concession operation.

- Our environmental protection facility engineering business primarily involves project engineering and design, procurement of equipment and materials, project construction, equipment installment and commissioning services in relation to desulfurization and denitrification and dust removal for coal-fired power plants. In a typical EPC arrangement, our revenue generated from the project comprises of revenue from the sale of equipment that we procured for our customers from third-party suppliers, and the project design and the construction fees that we receive for each phase of the construction work through the completion of the whole project as specified in the project contracts. For the year ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, revenue attributable to our environmental protection facility engineering business amounted to RMB781 million, RMB816 million, RMB764 million and RMB261 million, respectively, representing approximately 63.0%, 60.4%, 56.5% and 32.7% of our total revenue, respectively. As of September 30, 2017, we had 27 EPC projects under construction or to be constructed, which in aggregate are currently expected to bring us revenue of RMB529 million for the year ending December 31, 2017 and RMB446 million for the year ending December 31, 2018.
- Our operation and maintenance services mainly include the provision of operation service and regular maintenance service for desulfurization and denitrification facilities and dust removal facilities owned by our customers. We primarily provide desulfurization and denitrification operation services and dust removal services to coal-fired power plants as a

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contractor, where our work scope includes the full operation, testing and repair, upgrading and maintenance of flue gas treatment system/facilities owned by these coal-fired power plants. We are responsible for the operation of these facilities for a term specified in the contract. Our revenue from the operation of such projects consists of service fees charged at a fixed contract price or by reference to on-grid tariff subsidies on a per kilowatt hour basis for power generated by the coal-fired power plant to which the project relates. In addition, we provide regular maintenance services, including technical support, professional training and regular maintenance for our customers' flue gas treatment facilities, equipment testing and repair services and provision of spare parts. For the year ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, revenue from our operation and maintenance business amounted to RMB256 million, RMB250 million, RMB221 million and RMB295 million, respectively, representing approximately 20.7%, 18.5%, 16.3% and 37.0% of our total revenue, respectively. We successfully renewed 100%, 57%, 83% and 88% of our O&M projects that expired in 2014, 2015, 2016 and the first nine months of 2017, respectively. As of September 30, 2017, we had 14 on-going O&M projects with a total installed capacity of 19,680 MW.

- Our concession operation business is mainly conducted on a BOT basis. In a typical BOT project, we are responsible for the financing, investment, construction and operation of a project according to the concession contract with our customer. In general, we finance the concession projects by our own capital or borrowings from financial institutions. After the completion of constructions, we also own, operate and maintain the project for a period pre-defined in the concession agreement, which is typically 15 to 20 years, and we are also entitled to receive service fees for the operation of the project during the term of the contract. Revenues generated from our concession operation business during the operation of the relevant projects are charged by reference to on-grid tariff subsidies determined on a per kilowatt hour basis for power generated by the coal-fired power plant and settled with our customer on a monthly basis. At the end of the contract period, we transfer the ownership and operational responsibilities of the project to our customer. For the year ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, revenue attributable to our concession operation business amounted to RMB172 million, RMB249 million, RMB316 million and RMB221 million, respectively, representing approximately 13.9%, 18.4%, 23.4% and 27.7% of our total revenue, respectively. As of September 30, 2017, we had two BOT projects under construction with an aggregate installed capacity of 2,100 MW and four BOT projects under operation with an aggregate installed capacity of 3,820 MW.

OUR COMPETITIVE STRENGTHS

We believe that the following strengths have contributed to our leading position in the flue gas treatment industry in the PRC.

We are a leading independent flue gas treatment integrated service provider in the PRC and our business strengths have earned us numerous highly-recognized awards.

We are regarded as one of the independent participants in the flue gas treatment industry in the PRC. We undertook our first flue gas desulfurization project of a 600MW unit coal-fired power plant in 2003 in the PRC. Early in 2006, we were qualified as one of the third parties to be engaged to tackle

environment issues of power plant facilities in the PRC. In addition, in 2007, we were authorized by the NDRC and the predecessor of the Ministry of Environmental Protection to be one of the first batch of pilot entities engaged in the concession operation of desulfurization projects in the PRC. By virtue of our exquisite technical skills, outstanding R&D capabilities, excellent execution capabilities, flexible and efficient market-oriented operation mechanism and sound management system, we have developed into an independent flue gas treatment integrated service provider with considerable market competitiveness, through proactive promotion of our three strategies focusing on our leading position in terms of technology, costs and execution.

We are the leading independent flue gas treatment integrated service provider in the PRC. According to Frost & Sullivan, as of December 31, 2016, we ranked first among domestic independent flue gas treatment service providers for coal-fired power plants in terms of desulfurization EPC service business, and fourth in terms of denitrification EPC services business, as measured by cumulative installed capacity in operation; we ranked third among domestic independent flue gas treatment service providers for coal-fired power plants in terms of concession operation of desulfurization business, and third in terms of concession operation of denitrification business, based on cumulative capacity in operation.

Our outstanding business strengths are widely recognized in the flue gas treatment industry and have earned us numerous awards, including the “2014 National Outstanding Contributor to Air Pollution Reduction” (2014全國大氣污染減排突出貢獻單位) and “National Quality and Creditworthy Enterprise” (全國重質量守信用企業) accredited by the Ministry of Environmental Protection. Our Datang Xinyang project was granted by China Construction Industry Association under the Ministry of Construction the honor of “Luban Award” (魯班獎), which represented the highest level of recognition in this industry, and our Beilun project was awarded “National Quality Engineering Golden Award” (國家優質工程金質獎) by the National Engineering Award Committee. In addition, we have won “China Electric Power Quality Engineering Award” (中國電力優質工程獎) granted by China Electric Power Construction Association for nine times.

We have undertaken numbers of flue gas treatment projects during recent years, including following milestone projects:

- *Our first independently developed horizontal WESP project.* Shandong Weiqiao Binzhou independent R&D horizontal wet-ESP Project (4*135MW) undertaken by us in 2016 was our first horizontal WESP project highlighting our own independent R&D, design, supervision, installment and commissioning, reflecting the successful application of our horizontal WESP technology.
- *Our lowest SO₂ emission concentration project so far.* Shandong Shouguang desulfurization project (2*1000MW) undertaken by us has been put into operation successfully in 2016. By adopting the independently developed high efficient air-tower desulfurization technique (3rd generation), we have successfully reduced emission of SO₂ with concentration thereof to less than 10mg, and the desulfurization efficiency reaches 99.32%. This is the first “Near Zero Emission” project in Shandong and also a key project in Shandong province.
- *Our O&M projects in overseas market.* Expanding from our existing environmental facilities in the overseas market, we undertook power plant desulfurization operation and maintenance for the Serbia (2*350MW) Project Phase I in 2016, which became our first

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O&M project in the overseas market that marks the success of the development of the overseas market of our operation and maintenance business.

- *Our first non-WESP “ultra-low emission” concession operation project.* In 2015, we undertook Shanxi Yuguang Green Island non-WESP “ultra-low emission” concession operation project (2*300MW), which was one of the first batch of “ultra-low emission” demonstration projects of Shanxi province. Rather than adopting the conventional ash emission control solution, the project achieved “ultra-low emission” through SNCR + non-WESP desulfurization + static-bag dust removal on an integrated basis.
- *Our first Green Island project.* We undertook Shandong Nanshan Green Island Project (3*330 MW) in 2014. This is the first Green Island project undertaken by us adopting the “ZFD Flue Gas Pollution Control Technology”, which is a synergy of our independently-developed advanced technologies in desulfurization, denitrification and dust removal. This project was completed within short turnaround time, with a broad operation scope and strong coordination technology, which demonstrates the maturity of our technology in Green Island projects.
- *Our first low-low temperature dust removal project.* In 2014, we undertook Guangdong Pinghai Power Plant low-low temperature dust removal EPC Project (1*1000 MW), which was our first low-low temperature dust removal project in operation. The project demonstrated manifest energy saving in dust removal with the effect of the removal of SO₃.

Our leading market position helps us establish extensive customer base and achieve a proven track record, which in turn provides us with additional business development opportunities.

We have a leading market share. We have established long-term relationships with our major customers, and we have a broad and diversified customer base. We have maintained good long-term cooperation with our customers, including various state-owned large power groups, local power generation enterprises, large energy companies and large energy construction general contractors.

After years of operation, we had completed desulfurization and denitrification EPC projects, O&M projects and concession operation projects in almost 30 provinces, municipalities and autonomous regions in the PRC as of September 30, 2017.

We have obtained significant recognition from customers in terms of operating results, professional capability and quality services. Benefitting from the national policies promoting the “ultra-low emission” upgrade and third party treatment, and by virtue of our broad customer base and proven track records over these years, we are in a position to capitalize on the existing customer to seek new business opportunities in the “ultra-low emission” upgrading and third party treatment markets in the future.

Underpinned by our strong strengths in technology and outstanding R&D capabilities, we are committed to satisfying our clients’ various demands for environmental protection solutions on an integrated basis.

We have advanced R&D equipment and facilities and we have also established a professional R&D team. We have established an enterprise technology center which was accredited by the Beijing

Municipality Commission of Economic and Information Technology and a post-doctoral research station with Nankai University. We and our projects were also awarded as the “Zhongguancun Science Park Innovative Pilot Enterprise” (中關村科技園區創新型試點企業), “Zhongguancun National High-tech Industry Standardization Demonstration Zone Construction TC/SC Promotion Advanced Unit” (中關村國家高新技術產業標準化示範區建設TC/SC推進先進單位) and “Zhongguancun Major Project in R&D and Industrialization of Key Technology and Equipment regarding SCR Flue Gas Denitrification” (中關村SCR煙氣脫硝關鍵技術和裝備研發與產業化重大項目). We have established a full working condition simulator training base, a physical model flow field laboratory, a seawater desulfurization thermal experimental platform and an R&D test platform, which have enabled us to achieve continuous technological innovation and upgrading. Our core R&D personnel have all obtained the “senior engineer” qualification, and have extensive experience in the flue gas treatment industry. As of the Latest Practicable Date, we owned 49 patents in the PRC and two patents overseas.

Our technical strengths are widely recognized by the State as well as the industry, and our projects have been awarded for their quality and safety. We are among the first batch of national high-tech enterprises, and have been recognized as a key high-tech enterprise in 2014. In addition, we have obtained environmental engineering design qualification (Level A), environmental protection engineering contractor qualification (First Class) and enterprise ecological construction and environmental engineering consulting qualification (Level A), all of which have laid a solid foundation for us to maintain industry leadership and further expand into new businesses. Furthermore, thanks to our strong strengths in technology and effective quality control measures, we have maintained the record of nil safety accident for our completed projects.

We proactively seek technology development and research collaboration with world-renowned multinational companies as well as domestic and overseas research institutes. In recent years, to introduce advanced technology from abroad, we have established strategic partnerships with Hitachi (China) Ltd., Nara Power Co., Ltd. of South Korea and Nrgtek Inc. and The Chemithon Corporation of the United States in respect of introduction of new technology and cooperative development. Meanwhile, in order to further enhance our R&D capabilities, we have entered into extensive research cooperation with Tsinghua University, Nankai University and other universities. We have entered into a joint technology licensing cooperation framework agreement with Sinopec Fushun Research Institute of Petroleum and Petrochemicals, pursuant to which we will cooperate in joint technology licensing to achieve “ultra-low emission” in the fields of petroleum and petrochemicals, oil field, power and coal chemicals, so as to develop and enhance our R&D capabilities in environmental protection and energy conservation technology for petroleum, chemicals and other industries.

We, as a corporate, are acting in the following capacities: deputy director of China Environmental Protection Products Standard Technology Committee, deputy president of Sub-association of Energy Conservation & Environmental Protection of the CEC, member of China Association of Environmental Protection Industry, member of China Environment Remediation Industry Alliance, secretary-general of the Solid Waste Treatment Standard Committee of Environmental Protection Standards Administration, deputy director member of CEC Branch Association of Energy Conservation & Environmental Protection as well as deputy director of Environmental Protection Technology Standard Committee of All-China Environment Federation. Meanwhile, we have proactively participated in the preparation of relevant national and industry standards, laying solid foundation for us to maintain leadership and further expand into new business. As of the Latest Practicable Date, we had involved in the establishment of three national standards and six industry standards.

As we have industry-leading technology and, leveraging our own R&D capabilities, we conduct in-depth studies in all aspects of flue gas pollution control. Particularly, our technology enables us to achieve the efficiency of SO₂ removal and denitrification of approximately 99.8% and 98%, respectively, exceeding the national technology requirements of “ultra-low emission”. To continue to improve our competitiveness, we have gradually transformed our business model from stand-alone desulfurization and denitrification services to coordinated treatment business named “Green Island” for coal-fired power plants. We provide to our customers with the integrated solution “Flue Gas Green Island”, which applies our advanced proprietary flue gas pollution control technology focusing on flexible combination, high efficiency, energy-saving, coordinated treatment and ultra-clean emission. At present, we have established track records of construction and operation of several “ultra-low emission” Green Island projects. Meanwhile, we are well prepared to introduce other technologies for treatment of flue gas pollutants, including those in relation to SO₃, mercury and metallic oxide.

We are among the first pilot enterprises engaged in the concession operation of flue gas treatment in the PRC and have developed an all-around business structure of flue gas treatment section through pursuing concession operations and operation maintenance upgrades in recent years, as well as improving our service and project management capabilities, which have laid a solid foundation for our sustainable development.

We were, as early as in 2007, one of the first pilot enterprises qualified to conduct the concession operation of desulfurization projects. According to Frost & Sullivan, based on cumulative capacity in operation as of December 31, 2016, we are the third largest independent flue gas desulfurization concession operation service provider and the third largest independent flue gas denitrification concession operation service provider of coal-fired power plants in the PRC.

At early as in 2006, we were qualified as one of the earliest third party operators of environmental protection facilities for coal-fired power plants in the PRC. Supported by our strong strengths in operation and maintenance, we are capable of providing comprehensive services covering the entire flue gas treatment environmental protection system for domestic and foreign power plants, including flue gas desulfurization and flue gas denitrification (SCR, SNCR) and flue gas dust removal (ESP, bag filter, WESP). Moreover, we have the capability of executing operation and maintenance, ash removal, coal transportation and Class A, Class B and Class C standard maintenance. As of the Latest Practicable Date, our customer base for the O&M services had covered major power groups in the PRC. As of September 30, 2017, we were operating 14 O&M projects. When providing maintenance services to cover our customers’ manufacturing and other processes, we have formed an expert group to provide diagnosis and maintenance based on the remote analysis, processing and 24-hour remote computer monitoring through the Information System of Internet of Things.

We continuously improve our overall capabilities in our environmental operation, including technology capabilities, management skills, execution capabilities and our profitability. We have an integrated operation management organization, comprehensive operational management policies and procedures, a team of skillful, dedicated employees, strong technical support team, technical supervision team, as well as an administrative and support team, enabling us to meet production requirements on a timely basis. We are able to save energy consumption, repair the old and utilize the waste in our operation while maintaining safe production and ensuring the emission to meet standard, to achieve cost saving and improve our profitability.

In recent years, leveraging on the “third-party treatment” policy advocated by the State, we have been actively upgrading our operations in response to market changes and in accordance with our

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business development plans. Our business model has transformed from heavy concentration on EPC business to a mix of EPC, O&M, and concession operation business, laying solid foundation for our business upgrade and comprehensive development, which in turn helps us achieve sustainable development, and enables us to establish a business structure covering all aspects of flue gas treatment business.

We have adequate experience in executing overseas projects, which enables us to capitalize the development opportunities arising from the increasing demands in the overseas environmental protection markets.

We started to expand our business into the overseas markets in 2007, ahead of most of our competitors. In particular, we have undertaken more than 10 quality desulfurization and denitrification projects in Europe, South Asia, Latin America, Africa and Southeast Asia, and are one of the few PRC companies having successfully completed thermal power environmental protection projects in overseas markets. In addition, we have maintained long-term cooperation with general contractors of overseas energy engineering projects, such as China National Machinery Import & Export Corporation. In certain overseas regions including Europe, South Asia, Latin America, Africa and Southeast Asia, most coal-fired power plants are not equipped with flue gas desulfurization and denitrification facilities, while demands for EPC projects for flue gas desulfurization and denitrification facilities in these regions are expected to grow in the future. Our experience in executing overseas projects has laid a solid foundation for us to seize the emerging business opportunities in the overseas desulfurization and denitrification markets. Moreover, we have established a dedicated overseas market team to take charge of sales of the projects for which the construction sites are outside of China, aiming to actively develop our overseas operation. As of September 30, 2017, the cumulative installed capacity of our overseas desulfurization and denitrification projects, based on cumulative contracted sales, amounted to 6,700 MW. During the Track Record Period and up to the Latest Practicable Date, none of our projects located in the sanctioned countries.

We have benefitted from the support from the national development strategies and environmental protection policies and captured the business opportunities arising from the increasing demands from overseas markets for environmental protection. Supported by the national development strategies of “Go Global” and the “Belt and Road”, overseas investments made by domestic power enterprises have seen significant increases. According to the International Energy Agency’s forecast, from 2014 to 2020, the annual amount of electric power investments in the non-OECD countries along the “Belt and Road” is estimated to be 246.1 billion euros. Benefitting from the “ultra-low emission” power related environmental protection standards of the PRC, which are in the leading position in the world, and our advanced flue gas treatment technology to which we own proprietary intellectual property rights, we are capable of capturing the development opportunity brought by the enormous overseas markets for environmental protection.

Leveraging our abundant experience in executing overseas projects and our in-depth knowledge about local markets, we are able to identify more accurately the trends of the overseas markets, which in turn places us in a better position to conduct overseas business. Furthermore, we have entered into the European market and have completed a number of projects, including EREN (1+1)*600MW Ultra Supercritical Coal-fired Units Power Plant Desulfurization Project and IZDEMIR (1*350MW) Ultra Supercritical Coal-fired Power Plant Ammonia-production-from-Urea Project in Turkey, flue gas treatment projects of 2*350MW unit and 1*350MW unit in Serbia. Our completion of these projects indicates that our technology capability is sufficient to complete projects under the strict EU

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engineering standards. Our capability to meet the high standards in the overseas markets will help us further expand in the overseas markets.

In addition, we are proactively cooperating with local enterprises in the overseas markets to further expand our business there. For instance, we entered into the Framework Agreement in Relation to Jointly Developing the Soft Coal Pollution Emission Control Market of India with Macawber Beekay Pvt. Ltd (“MBPL”), an Indian company, in October 2016, to jointly develop and execute emission control projects for power plants in the Indian market, including desulfurization, denitrification and dust remover applications on which we are able to offer efficient solutions with leading technologies. According to the data released by the Ministry of Power of India, up to mid-2016, the installed capacity of coal-fired power plants in India is 186.2GW which was equivalent to merely 20% of the installed capacity of coal-fired power plants in China, indicating significant growth potential in the environmental protection facility market in India. In addition, as of the Latest Practicable Date, we were performing the contracts relating to a 2*350MW O&M project in Serbia, a 1*350MW EPC project in Serbia and a 2*660MW EPC project in Pakistan, the aggregate installed capacity of which amounts to 2,370MW.

We have established a sound corporate governance structure, a flexible and efficient management system, and a diverse shareholding structure.

Over the years, we have maintained efficient and robust corporate governance structure, and we were the first Chinese company directly listed on the First Section of Tokyo Stock Exchange in 2007, which lays a solid foundation for our long-term sustainable development.

Through the establishment of our share award scheme for employees, we have aligned the interests of the management and key employees with those of our shareholders. We believe that the establishment of an efficient employee incentive schemes help us improve our management efficiency and achieve a win-win situation.

Through the introduction of certain strategic and financial investors, such as Sinopec, New Asia and Full Synergy, we have been developing our EPC business in the non-electricity fields to achieve the diversification and sustainable growth of our business, and also to acquire better industry resources to enhance our financial strengths and provide impetus to our further development. Furthermore, the introduction of new shareholders has improved our shareholding structure and strengthened our corporate governance capacities, further enhancing our overall strengths. Our diversified shareholding structure enables us to enhance our overall competitiveness. Upholding a mutual benefit and win-win business philosophy, we will be well positioned to further enhance our profitability and financial performance.

As an independent market-oriented private enterprise, we benefit from our sound organizational structure, established management system and efficient decision-making mechanism. We have a complete authorization, institution and process system, a sound comprehensive budget management and execution system, prudent financial management, a robust performance appraisal system and an effective incentive and disciplinary mechanism, which helps us withstand market risks and capture market opportunities.

We have a stable and experienced senior management team and a highly specialized execution team, and have formed a unique talent training system.

On an average basis, our management team has cumulated working experience in the flue gas treatment industry, financial industry and related fields for more than 10 years and enjoy extensive resources and good reputation and influence in this industry. Our senior management possesses industry-leading experience in market development, technology development, engineering construction, organization and management and capital operation.

Our executive team comprises of highly specialized employees. Over the years, we have built a balanced and solid business and management team consisting of highly qualified personnel. In particular, our key designers previously worked in major electric power design institutes and chemical design institutes, and have extensive experience in engineering design. Through accumulating extensive experience in the execution of various complicated projects and ongoing consultation with our technology partners in and outside China, our designers have obtained good understanding of the market-leading technologies, and have developed our unique core technologies.

Our management team has a strategic vision. In recent years, we have maintained a leading position in the EPC market, strived to develop desulfurization and denitrification concession operation business, and expanded into other fields of environmental protection and energy conservation industry. Eyeing the business opportunities brought by national environmental protection policies relating to “ultra-low emission” standards and “third-party treatment”, our management team has led us to deliver solid financial results.

We adhere to a corporate development strategy which promotes employees’ career development. We offer training courses of multiple levels and specialty areas to lay a foundation for attracting talents and we offer distinctive and specialized training with respect to different businesses and majors, such as an “Eyas training scheme” for college graduates, multidimensional training courses for sales personnel as well as designing specialized training and project talents to maintain our technology advantages and talent pool.

OUR DEVELOPMENT STRATEGIES

We seek to strengthen our position as a leading flue gas treatment service provider in China, and further expand our market share to maximize shareholder returns. We also plan to expand our business into other environmental protection and energy conservation areas and contribute to the pollution prevention and control and energy conservation in China and around the world. We are committed to becoming a world-class environmental industrial group.

To achieve this goal, we intend to pursue the following strategies:

We will capture the market opportunities brought by the State’s “ultra-low emission” policy, further cover the overall industry chain of flue gas treatment and explore the potential markets to achieve the sustainable development of our business.

Coal-fired power currently still dominates China’s power generation landscape. According to Frost & Sullivan’s forecast, it is expected that the installed capacity of power generation will grow continuously from 2016 to 2021. In line with the steady growth of China’s economy, the installed capacity of coal-fired plants is expected to grow continuously. According to Frost & Sullivan’s forecast, the cumulative installed capacity (of power generation) is expected to reach 2,282.1 GW in 2021, representing a CAGR of 6.8% from 2016 to 2021.

As air pollution keeps challenging people's life and health, the PRC Government has continuously tightened the standards for pollutant discharge. Facing the increasing environmental pressure in China, the NDRC and other governmental authorities in China have issued the *Action Plan of Energy Saving, Emission Reduction, Upgrading and Retrofitting of Coal-fired Power Plants* (2014-2020) in September 2014, which imposes strict requirements on the flue gas emission standards for coal-fired power plants, and the *Proposals for Comprehensively Implementing the Ultra-low Emissions and Energy Conservation Upgrade of Coal-fired Power Plants* in December 2015, which requires the comprehensive implementation of "ultra-low emission" and energy conservation upgrade on coal-fired generator sets by 2020, in order to lower the coal consumption and pollution emission significantly. We seek to capture the market opportunities arising from China's national "ultra-low emission" policy. Leveraging our extensive customer base and abundant business experience, we seek to further cover the whole industrial chain of flue gas treatment. According to Frost & Sullivan, it is estimated that massive amounts of capital will be invested in gas treatment to meet the latest "ultra-low emission" standards, and the cumulative size of the "ultra-low emission" engineering market of coal-fired power plants from 2016 to 2021 is expected to be approximately RMB154.2 billion.

We will closely monitor the flue gas treatment market developments in the non-electricity industry and explore the markets with growth potential to achieve the sustainable development of our business. The PRC Government promulgated a regulation on the integrated EPC solutions in connection with industrial boilers in 2014, "Integrated Implementation Solution for the Enhancement of the Construction of Energy Saving and Environmental Friendly Coal-fired Boilers", which imposes differentiated requirements on the installation of desulfurization and dust removal facilities according to different capacities of boilers. With improving standards for environmental protection, it is expected that the flue gas treatment market of industrial boilers in the non-electrical industry will have significant growth prospects in the future years. According to Frost & Sullivan's forecast, the expected investments in flue gas treatment of industrial boilers will exceed RMB100 billion.

Leveraging the policy trend of "third-party treatment" of environmental pollution advocated by the State, we will focus on the development of concession operation and operation and maintenance business to continuously optimize our business structure.

Since the issuance of the Notice of Pilot Plan of Concession of Coal-Fired Power Plant Flue Gas Desulfurization in 2007 to the joint issuance of the Guiding Opinions on Promoting "Third-party Treatment" of Environmental Pollution Caused by Coal-Fired Power Plant by NDRC, MEP and National Energy Administration in 2015 and the issuance of the Implementation Opinion on the Promotion of Third-Party Treatment of Environment Pollution by MEP in 2017, a series of environmental treatment policies have been promulgated, which brought significant impetus to the development of the relevant industries. Such policies demonstrate the PRC Government's determination to continuously promote flue gas treatment as well as its acknowledgement of and support to the third-party treatment model. In light of the above favorable national policies, we have put more focus on flue gas third-party treatment markets which comprising desulfurization and denitrification concession operations, and desulfurization and denitrification O&M services.

With rising awareness of the solutions for environmental protection facilities and increasing support from the PRC Government to third-party treatment, the market for concession operation is expected to have considerable growth prospects. According to Frost and Sullivan, desulfurization and denitrification concession operations are expected to grow steadily with a penetration rate to reach 15.7% and 15.5%, respectively, by 2021. With the strong support under the policies promulgated by

the PRC Government, the concession operation of desulfurization has been effectively introduced to coal-fired power plants. The cumulative capacity in operation of concession operation of desulfurization in China increased from 52.0 GW in 2011 to 108.0 GW in 2016, representing a CAGR of 15.8%. During the foreseeable future period, it is expected that the desulfurization market for coal-fired power plants will be further opened up, and the cumulative capacity in operation of concession operation is also expected to expand rapidly to 178.7 GW in 2021, representing a CAGR of 10.6% from 2016 to 2021. In addition, certain coal-fired power plants in China have adopted the concession operation for their denitrification facilities since 2012. The cumulative capacity in operation of such concession operation has increased from 5.7 GW to 76.8 GW from 2012 to 2016, representing a CAGR of 91.6%. During the foreseeable future, it is expected that the cumulative capacity in operation of denitrification facilities will increase to 170.7 GW in 2021, representing a CAGR of 17.3% from 2016 to 2021. According to Frost and Sullivan, desulfurization and denitrification O&M services are expected to increase. Furthermore, the cumulative installed capacity in operation of desulfurization and denitrification under O&M model has increased from 56.7 GW in 2015 to 96.5 GW in 2016 and is expected to increase to 376.4 GW in 2021, representing a CAGR of 31.3% from 2016 to 2021.

We seek to utilize the Internet+ and Big Data Platform to improve our capabilities in the O&M services. We have accumulated experience in this area since 2006 and have established an expert pool, which enables us to use the latest technology to conduct remote analysis and solve the issues through the Internet and achieve 24-hour remote monitoring. We also have a team of experts in place to remotely diagnose and assist on the resolution of any issues. We plan to further increase the use of Internet technology in our business, to develop a large data platform and improve the efficiency of our third-party operation and maintenance to enhance our capabilities in operation and maintenance, expand our customer base for this business and increase the proportion of the operation and maintenance business in our business mix.

We seek to capitalize the development trend of third-party treatment business and increase our resource allocations to this business to accelerate the upgrading of such business. Supported by the PRC Government's policies, the third-party treatment market of thermal power plants has considerable growth potential in the future. We seek to capture the business opportunities brought by such policies by exploring the market potential for our desulfurization and denitrification concession operation of thermal power industry and operation and maintenance business. Through bidding and strategic cooperation with leading customers in this industry, we seek to grow our concession business and operation maintenance business and refine our business mix of concession business and operation maintenance business to lay a solid foundation for our sustainable development.

Leveraging the implementation of the “Belt and Road” national strategy, we will further explore the overseas markets.

The overseas markets show significant growth potential. The “Belt and Road” strategy implemented by China will include infrastructure construction, including energy infrastructure as a key area for investment. Leveraging the “Belt and Road” strategy and the national “Green Finance” policy, we will continue our focus on developing markets in countries alongside the “Belt and Road”, such as Turkey, Serbia, India, Indonesia, Vietnam and Pakistan. The countries alongside the “Belt and Road” are substantially emerging economies and developing countries, facing multiple challenges from environment pollution and ecological degradation due to the industrialization and global industrial transfers. With rising standards for environmental protection in the countries along the “Belt and Road”, there are expected to be a great potential in the overseas markets. As one of the few PRC

companies having successfully completed thermal power environmental protection projects in overseas markets, we plan to seize the opportunity in overseas environmental protection market arising from the “Belt and Road” strategy and actively expand our overseas markets.

Since we commenced our first overseas projects in 2007, we have explored the overseas market and accumulated experience in executing overseas projects over the past decade. We have constructed ten projects in countries along the Silk Road Economic Belt and the 21st-Century Maritime Silk Road, such as Vietnam, Turkey, Pakistan and Serbia, and was one of the few PRC companies having successfully completed thermal power environmental protection projects in overseas markets. Our experience in successfully executing overseas projects will be a significant advantage for us to capture the opportunities in the overseas markets. As China implements one of the most stringent flue gas emission standard in the world, we possess the relevant professional knowledge to meet the overseas demand. Leveraging on our experience from successfully implementing a number of projects overseas, we will be able to employ relevant expertise and obtain the relevant qualifications, if needed, for our overseas expansion.

We will continue our cooperation with general contractors of overseas energy engineering projects, such as China National Machinery Import & Export Corporation, one of the major large-scale state-owned foreign trade company in China specialized in import and export of international engineering contracting business, and coordinate with overseas companies to explore the market. We will also continue our cooperation with engineering and technology companies in regions and countries where the project locates, and international general contractors of engineering projects. We currently plan to explore overseas market based on our existing EPC and O&M models. We will strengthen the building of overseas team in the marketing, design, procurement and project execution area, and accelerate the building of international talents pool through introducing talents and internal trainings to meet the demand for the development of overseas markets. In addition, we will selectively expand the market and establish overseas branches taking into account of overseas market condition.

We will further expand our business scope based on our core competitive strengths in the flue gas treatment industry to become a comprehensive environmental protection industrial group.

We will continuously expand and promote the development of desulfurization, denitrification and dust removal flue gas treatment business. Leveraging on our technology wealth and proven project execution capabilities in the flue gas treatment industry, particularly our technical strengths in “ultra-low emission” as well as energy conservation and emission reduction, we will seek to acquire new customers through offering advanced Green Island integrated solutions, and provide flue gas treatment services to customers in the heavy flue gas polluting industries, such as the petrochemical, non-ferrous metal smelting, iron and steel, and cement industries on the basis of protecting our existing coal-fired company customer base. On the basis of the cooperation with Sinopec Fushun Research Institute of Petroleum and Petrochemicals, we will further strengthen our technical reserves in flue gas treatment as well as expand our business with the petrochemical industries. In the meantime, we proactively extend our flue gas treatment industrial chain to other aspects of heavy metal treatment, VOC treatment and CO₂ capturing and collection, and advance our leading position in the flue gas treatment industry.

We will continuously expand our comprehensive environmental protection business of the existing coal-fired power plants to provide energy-saving and environmental protection solutions to our coal-fired power plant customers. We will focus on zero wastewater discharge and detoxification treatment of solid waste. Integral treatment of zero wastewater discharge of coal-fired power plants

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includes wastewater treatment operation and projects, which we believe to be a promising market and may become a new business growth area. Leveraging on the wealth of our executed projects, the maturity of our technology and extensive operation experience in wastewater desulfurization treatment for coal-fired power plants, we have completed the technology development for our zero wastewater discharge desulfurization showcase project. The construction of the showcase project has already commenced, and is expected to complete in 2018.

In combating water pollution, the State Council promulgated a special environmental protection action plan to effectively strengthen water pollution prevention. The investments in China for water treatment between 2015 and 2020 is expected to exceed RMB2 trillion. We will fully utilize engineering integration and management capabilities to expand the development of municipal and industrial sewage treatment business through, among others, technology cooperation, investment, mergers and acquisitions. We actively explore different treatment technologies for different water quality and provide corresponding solutions, with a view to expanding our business into a promising water treatment market in China.

In the field of soil pollution prevention and treatment, with the implementation of Soil Pollution Prevention and Treatment Action Plan, it is expected that, during 13th Five-Year Plan period, the size of soil treatment and remediation market in China will increase to the range of approximately RMB500 billion to RMB600 billion. We will seek to capture the opportunities brought by environmental protection policies, proactively explore the soil restoration business and explore the markets through various approaches means including technology cooperation and collaborative development, to achieve the diversified development of our business. In March 2017, we entered into a contract with the Research Center for Eco-Environmental Sciences of Guangdong Province (廣東省生態環境技術研究所) to implement advanced soil remediation technology. In April 2017, we entered into an investment cooperation agreement with Daetum Environmental Technology (Beijing) Co., Ltd (英德維環境科技(北京)有限公司) and pursuant to which we jointly established Boqi Environmental Remediation in July 2017, focusing on developing businesses of the treatment of oil sludge, residues and solid wastes in the petroleum and chemical industry, soil remediation of chemical plants relocated, and soil remediation of farmland.

In the non-electricity field, we have been engaged in the flue gas treatment business in the petrochemical, metallurgical, steel, architectural material and other non-electricity industry, to further expand the scope of flue gas treatment business. We have entered into a joint technology licensing cooperation framework agreement with Fushun Research Institute of Petroleum and Petrochemicals, pursuant to which both parties will cooperate in joint technology licensing to achieve “ultra-low emission” in the fields of petroleum and petrochemicals, oil field, power and coal chemicals, in order to develop and enhance our R&D capabilities in environmental protection and energy conservation technology for petroleum, chemicals and other industries. In addition, our experience in environmental protection projects for non-electricity industries, including EPC upgrade project of Shandong Nanshan Aluminum Co., Ltd. and desulfurization and dust removing system upgrade project of Binzhou Municipal Binbei New Material Co., Limited, which was laid a solid foundation for our future business development in the non-electricity field.

We will continue to increase our investments and efforts in technology R&D and technology innovation and strengthen the conversion of policy research results and technological achievements to provide technical support for our market development.

We will continue to increase our investments and efforts in technology research and development and technology innovation, and strengthen our technology reserves to continuously keep our leadership in technology. We will strengthen the infrastructure of technology research, and further improve our postdoctoral research station, our experimental research base and our technology center. We seek to improve our innovation capabilities, fully utilize the function of our technology center in technology innovation and building up our innovation capabilities, fully utilize our strengths in technology as high-tech enterprise.

We will continue to cooperate and communicate with external institutions in technology, closely monitor the development of the industry, establish the platform to acquire and monitor technology in different phases and different depth. We will actively promote cooperation and communication on technology, establish multi-level and multi-channel cooperations with well-known domestic and foreign technology research institutes and enterprises in the industry, promote technology advancement and continuously improve our technology research capabilities. We seek to establish a pool of various technologies to provide technical support for our development.

We will continue to actively participate in the establishment of the national and industrial standards to strengthen our leading position in technology as well as to contribute to the healthy and orderly development of our industry. We will actively utilize our position in the industry to promote the build-up of technology standards system to integrate the establishment of the standards with technology research, development, design, engineering and construction, and strengthen the conversion of research results into technological achievements.

We will seek strategic opportunities for mergers and acquisitions and expand the platform for capital operation to support our sustainable development.

The environmental protection market is highly competitive in China. We believe that the current trends of industrial development and China's implementation of "ultra-low emission", third-party treatment, the public-private-partnership, or "PPP" model, and other policies provide opportunities for integration and space for growth for the flue gas treatment industry, which will change the industrial model and competitive landscape.

We plan to strategically expand our concession operation for flue gas treatment. We also seek to increase the high-quality concession operation assets through mergers and acquisitions, strategic investments and project cooperation. In addition, we will selectively acquire enterprises in the areas of environmental protection as well as energy saving and comprehensive utilization, and further extend environmental protection and energy saving industry chain.

In seeking acquisition opportunities, we will continue to maintain flexibility in transaction structure. We may seek to fully own, control, or acquire a minority stake of, the target company. We may also execute acquisitions in phases. We plan to fully utilize the synergies brought by acquisitions through continues focus on effective integration and improvement of the businesses we acquire.

We plan to expand our financing channels and form an environmental protection fund to support and promote our business development plan. Upon the completion of our Listing, we will be

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able to access diversified financing channels on the capital market, such as secondary offerings, securitization of assets, debt offerings and financial leasing, to support the continued expansion of our business. In addition, we plan to deepen the integration of our business with capital market activities. We have obtained capital from strategic and financial investors, such as Sinopec, Great Origin and Full Synergy, to further strengthen our capital structure. We are also contemplating the formation of an environmental protection fund. We intend to cooperate with asset management or investment management companies in this regard, and use leveraged capital backed by investment expertise to fund our own environmental protection investment projects as well as investments in environmental protection related industries or businesses.

We will take advantage of the strategic investment of Sinopec, and vigorously expand the environmental protection market in the industries such as the petrochemical industry, to extend the industrial chain.

We will actively take advantage of the strategic investment of Sinopec to further enhance the technology development and research and cooperation with Sinopec Fushun Research Institute of Petroleum and Petrochemicals in the petrochemical industry, and fully utilize the capabilities of the research and development and test base of Fushun Research Institute of Petroleum and Petrochemicals and our engineering design and construction capabilities to improve our existing “ultra-low emission” technology for the treatment of flue gas generated from the coal-fired boilers. We seek cooperations in flue gas, wastewater and solid waste treatment business in the petrochemical industry, develop new technology and accelerate the progress of the industrialization. For example, in March 2017, we entered into a contract with Sinopec Shanghai, as the general contractor for an EPC project in connection with the upgrade of the desulfurization, denitrification and dust removal environmental facilities of a cogeneration power plant for the purpose of meeting the “ultra-low emission” standards.

Supported with the resources of shareholders in the industry, we will expand into the environmental protection market related to the treatment of flue gas, wastewater and solid waste of the industries such as petrochemical, through strengthening the coordination and cooperation in capital and industry chains and the adoption of different business models, such as environmental protection facility engineering, operation and maintenance, and concession operations. The promotion of technology and the execution of the showcase projects have laid a foundation for us to promote our brand for comprehensive environmental treatment solutions.

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Overview

According to Frost & Sullivan, we are a leading independent flue gas treatment integrated service provider for coal-fired power plants in the PRC, in terms of cumulative installed capacity as of December 31, 2016. We provide innovative technologies and quality services which aim to reduce the SO₂ and NO_x emissions of coal-fired power plants and offer other pollution control solutions to our customers. Our businesses principally fall within three segments, namely flue gas desulfurization, flue gas denitrification and dust removal services, under different business models. We also provide waste water treatment service to coal-fired power plants. We enter into project contracts with coal-fired power plants and other customers for the provision of our services mainly based on three business models: environmental protection facility engineering, operation and maintenance and concession operations. We use different business models for different projects in our desulfurization,

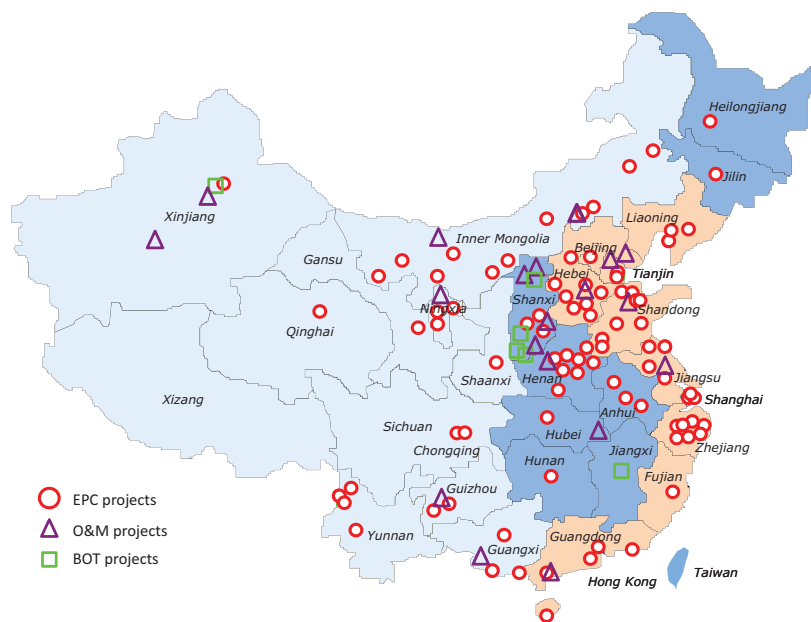
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denitrification and other flue gas treatment businesses in an effort to comply with general market practices or customers' requests or to take advantage of certain favorable government policies.

The table below sets out a breakdown of our revenue by business model and each as a percentage of the total revenue during the Track Record Period.

	For the year ended December 31,						For the nine months ended September 30,			
	2014		2015		2016		2016 (unaudited)		2017	
	RMB millions	% of total	RMB millions	% of total	RMB millions	% of total	RMB millions	% of total	RMB millions	% of total
Environmental protection facility engineering	781	63.0	816	60.4	764	56.5	472	51.7	261	32.7
Operation and maintenance	256	20.7	250	18.5	221	16.3	162	17.7	295	37.0
Concession operation	172	13.9	249	18.4	316	23.4	238	26.0	221	27.7
Others	30	2.4	36	2.7	52	3.8	42	4.6	21	2.6
Total revenue	1,239	100.0	1,351	100.0	1,353	100.0	914	100.0	798	100.0

The map below shows the distribution of our projects within the PRC as of the Latest Practicable Date.



In addition, as of the Latest Practicable Date, we had also implemented, or were implementing, more than ten projects in regions outside the PRC, such as Europe, South Asia, Latin America, Africa and Southeast Asia.

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The following table sets out a breakdown of our revenue by geographic region during the Track Record Period.

	Industry of Customers	Geographic Region	For the year ended December 31,			For the nine months ended September 30,
			2014	2015	2016	2017
(RMB millions)						
Environmental Protection Facility Engineering	Power-related industries	Eastern China ⁽¹⁾	127	127	129	26
		Central China ⁽²⁾	278	160	141	73
		Western China ⁽³⁾	111	144	221	45
		Overseas	23	166	16	5
	Other Industries	Eastern China ⁽¹⁾	227	213	257	111
		Central China ⁽²⁾	—	6	—	—
		Western China ⁽³⁾	15	—	—	1
Subtotal		781	816	764	261	
Operation and Maintenance	Power-related industries	Eastern China ⁽¹⁾	25	24	17	151
		Central China ⁽²⁾	113	110	101	56
		Western China ⁽³⁾	86	95	103	87
		Overseas	—	—	—	1
	Other Industries	Western China ⁽³⁾	32	21	—	—
Subtotal		256	250	221	295	
Concession Operation	Power-related industries	Central China ⁽²⁾	172	249	316	221
Others	Power-related industries	Eastern China ⁽¹⁾	9	3	3	7
		Central China ⁽²⁾	5	16	3	7
	Other Industries	Eastern China ⁽¹⁾	—	1	—	—
		Central China ⁽²⁾	10	9	12	7
		Western China ⁽³⁾	6	7	34	—
Subtotal		30	36	52	21	
Total		1,239	1,351	1,353	798	

Notes:

- (1) Eastern China includes Beijing, Fujian Province, Guangdong Province, Hainan Province, Hebei Province, Jiangsu Province, Liaoning Province, Shandong Province, Shanghai, Tianjin and Zhejiang Province.
- (2) Central China includes Anhui Province, Heilongjiang Province, Henan Province, Hubei Province, Hunan Province, Jiangxi Province, Jilin Province and Shanxi Province.
- (3) Western China includes Chongqing, Gansu Province, Guangxi Province, Guizhou Province, Inner Mongolia, Ningxia, Qinghai Province, Shaanxi Province, Xinjiang and Yunnan Province.

Environmental Protection Facility Engineering Business

Introduction

Our environmental protection facility engineering business mainly adopts EPC business model. Our typical EPC business primarily involves project design, procurement of equipment and materials, project construction and equipment installment services in relation to SO₂ or NO_x emission control and dust removal for power plants. Under this business model, we enter into project contract with our client and act as the primary contractor and we are mainly responsible for the design of the client's project; procurement and selection of various environment protection materials and equipment from domestic and overseas suppliers; construction subcontracting and overseeing of the project construction and

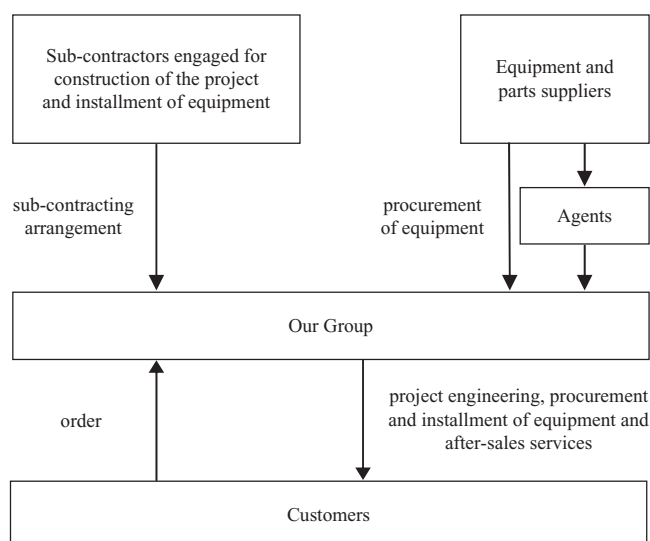
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equipment installment work; testing, inspection and trial operation of the facilities; and delivery of finished project to the client upon its completion after inspection by the competent government authority or independent third parties or customers.

A typical EPC model refers to that we, as the primary contractor, enter into environmental protection project contracting contracts with customers, pursuant to which we provide environmental protection system design, equipment procurement, installation and testing and other solutions and are fully responsible for the safety, quality, duration and cost of the construction projects, and title to the project facilities and equipment, as well as operational responsibility for the project, will normally pass to our customers after the environmental protection system obtains preliminary certificate of acceptance upon the completion of trial operation for 168 hours, and the project will enter into the quality guarantee period after it passes the inspection by the competent authority or independent third parties or customers, which is generally ranges from three to six months. We are able to make adjustments to the EPC model, such as EP (equipment design and procurement), PC (procurement and construction), P (procurement) and E and partial P (design and procurement of certain key equipment) to cater for our customers' differentiated business needs. For our overseas projects, we generally provide services to project customers through the EP model. Under this model, our equipment supplier is normally required to deliver the equipment to the port designated by our project customers. Upon the acceptance of the equipment by the project customer, our and our equipment supplier's equipment delivery obligations will be fulfilled. Our equipment supplier and us shall be jointly responsible for the quality of the equipment. According to the industry ranking published by CEC in 2016, our desulfurization and denitrification EPC business ranked first and fourth, respectively, among the independent flue gas treatment service providers in the PRC, in terms of cumulative installed capacity in operation.

Flow Chart for Our EPC Business

The flow chart sets out below is a brief description of our EPC business.



Under the EPC model, our company procure and produce based on the “market ability” principle, which means, we determine our concrete plans, such as project construction, equipment

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procurement and outsourcing, upon circumstances of the project signed under contract and through comprehensive analysis and design. The main business stages are as follow:

- Tender and signing of contracts

Our marketing center consists of a sales team and an overseas business department, which are responsible for our business development within and outside the PRC, respectively. We select our key targets to follow up from market opportunities gathered and follow up with the target customers through preliminary technical communications and recommendations, and participate in the public tenders held for these projects. We prepare a tender proposal together with an estimated budget based on, among other things, our proposed work scope and requirements in the tender invitation.

The table below sets forth certain information in relation to our bidding process of our EPC projects for the periods indicated:

	For the year ended December 31,			For the nine months ended September 30,
	2014	2015	2016	2017
Number of tender submitted	38	49	98	48
Number of tender suspended ⁽¹⁾	—	1	10	4
Number of tender won	11	9	18	8
Tender success rate (%)	28.9	18.8	20.5	18.2

Note:

(1) Indicates that the customer did not announce the winner for the bid during that year. The suspension of the bidding processes was primarily due to arrangements by the relevant customers.

Factors which could affect our tender success rate are (i) the willingness of major power generation groups to award contracts to independent suppliers outside the group; (ii) level of market competition; (iii) customers' preferred choices of technology; and (iv) our overall strengths, such as performance, brand and funds. The significant increase in the number of tenders submitted in 2016 was primarily due to an increase in market demands for "ultra-low emission" upgradings as a result of the promulgation of relevant national policies.

We enter into binding agreements with our customers after we are awarded the project contract, which set forth, among others, the technical specifics, payment arrangements, construction timeframe and warranty period for the project. For key terms of our typical EPC agreements, please see "— Typical Contract Terms". We also formulate a detailed target budget after the execution of the project contract based on the requirements in the contract. The detailed target budget is subject to the approval by our business decision committee and will be used as a benchmark to evaluate the budget management in later stages of the project.

- Project engineering design

Project engineering design consisted of preliminary design, construction plan design and design amendments, and is supported by technology and economic analysis. Preliminary design put into implementation only after being discussed and confirmed with customers. Detailed design in accordance with the executed technology agreement, including detailed planning of devices and the selection of equipment, materials and relevant services, will be carried out after the internal appraisal of our design institute. In respect of any exceptional circumstance occurred during the implementation of the project, it will be confirmed through the change of design.

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- Equipment procurement

Our design institute will provide an equipment procurement list and a technical specification based on the project design, and initiate a tender process in the procurement department. We will award a tender and sign a technology agreement and business contract with an equipment procurer after full consideration of the technical and commercial circumstances, financial budget, opinion of the project department and customers' opinion during the tendering evaluation process, the contract will be effective once approved.

- Project sub-contracting

Project sub-contracting mainly includes sub-contracting of construction and installation, anti-corrosion and reinforcement. Our technical department will suggest a budget for a sub-contracting based on the market price, the construction and installation department will then set a tender price limit based on the budget suggested by the technical department and initiate a tender process, recommend a pre-determined tenderer according to our tendering evaluation method and negotiate with the subcontractor about the contract, and finally execute the contract.

The settlement between us and a subcontractor includes down payment, interim payment and quality guarantee payment. Generally, the down payment equals to 10% of the total contract price. We will confirm the value of the completed portion of the project with the subcontractor on a regular basis, and pay the progress payment of the project based on the contract on a monthly basis until the aggregate payment, including the prepayments, reaches 70% of the total contract value. After the customer issues the preliminary certificate of acceptance and completes the project settlement with the subcontractor, we will pay 95% of the total contract value, while the remaining 5% of quality guarantee payment will be paid upon the expiry of the warranty period (generally lasting for one year) and the passing of final examinations of the project.

- Project construction

We appoint and authorize a project manager for each project to be responsible for the safety, quality, progress, cost and capital return of the project construction. According to project requirements, designated personnel from different departments form a working group which coordinates with the project manager in order to carry out the construction work. The working group generally consists of staff members responsible for designing, procurement, business management, marketing, finance management and on-site work. In general, the construction period for a new project is 12 to 18 months on average and three to six months on average for an upgrade project.

- System debug

System debug is an important technical stage after installing a device, and at this stage, operation and maintenance staff and technical managers of customers are required to receive trainings. We are required to provide a complete debug method, take full responsibility for the debug, and arrange individual debug and segment debug to ensure that the device meets the requirement for 168 hour trial operation.

- 168-hour trial operation

For our newly build projects and certain upgrading projects (as required by customers), once the environmental protection facility we build is under stable operation upon system debug, the facility goes into a 168-hour trial operation stage. If such facility can operate steadily under this stage with

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each indicator (technical parameters such as desulfurization and denitrification efficiency and energy and raw material consumption) satisfying the performance assurance requirements as specified in the technical agreement, then the device passes the trial operation. The facility will then be granted a preliminary certificate of acceptance and be transferred to our customer.

For our upgrading projects that do not require the 168-hour trial operation, the facilities are transferred to the customers once the construction is completed and the facilities are under stable operation.

- Final certificate of acceptance

After a project is granted a preliminary certificate of acceptance, it will go through a period of operation adjustment and defect handling. Within 3 to 6 months upon being granted of the preliminary certificate of acceptance, the project will be inspected by the government authority on environmental protection so as to meet the governmental discharge requirement, and be tested on performance by third parties with independent testing qualification so as to meet the requirements of the technical agreement. Upon the completion of the performance test, the project will be granted the final certificate of acceptance and enter into the quality guarantee period.

- After-sales service

Within the guarantee period, we will provide repair and maintenance services at our own cost if quality issues occur to the equipment provided by us; and we will send technicians to provide free guidance if it is due to other reasons. If the guarantee has expired, we will charge the service at cost.

Characteristics of Business Model and Revenue Recognition Policy

Our EPC projects are transferred to power plants upon completion, and revenues comprise construction payments made at specified stages. Our receipt of payment in installments lowers our exposure to project related risks. Meanwhile, the price charged under our EPC business model is not regulated by the government. In addition, we are not exposed to operational related risks because we are not responsible for the operation of project after the project is transferred. Our EPC projects do not require large-amount capital investment and only consume limited funds as compared to concession operation business model.

In terms of revenue recognition, revenues from the sale of equipment are recognized when the equipment is delivered to and accepted by our customer, and revenues generated from our design and construction services are recognized in line with the construction progress.

Typical Contract Terms

The following table sets forth the major terms of typical EPC contracts we entered into with our customers.

Major terms	Details
Scope of services	We are responsible for the design, construction, installation and the final testing of the environmental protection facilities, as well as the procurement of necessary equipment.

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Major terms	Details
Pricing	<p>We set the prices for our EPC projects based on our budgeted costs and expected profit margin for the respective project. Our expected profit margin is primarily determined based on, among others, (i) the nature of the project, namely newly built projects or upgrading projects; (ii) length of construction period for the project; (iii) the total contract value of the project; (iv) our relationship with the customer; (v) the location of the project; and (vi) our desire to enter in to new markets.</p>
Payment arrangement	<p>We typically receive an advance payment equaling to 10% of the total contract value after the execution of the agreement, which will be deducted from the customer's payment to us during the later stage of construction.</p> <p>Payments for our construction services are made in line with the construction progress, which is confirmed and settled between the customer and us on a monthly basis, until such payment reaches 90% of the total fees we charge for the construction when the payment is suspended. The remainder will be paid after the facilities are transferred to our customer and pass the 168 hour trial operation and we receive a certificate of preliminary acceptance from the customer.</p> <p>The quality guarantee is retained by the customer until the expiration of warranty period and our receipt of a certificate of final acceptance from the customer.</p> <p>Payment for the equipment we procured for the project is paid generally in line with the delivery, installation and testing progress of the equipment.</p> <p>Fees for our design, testing and technical services are paid in accordance with the timeline set forth in the project contract.</p>
Examination and acceptance	<p>The customer generally examines each equipment when delivered onsite, and issues a certificate of acceptance.</p> <p>The customer is responsible for the preliminary examination of the facilities when it passes the 168 hour trial operation, and issues a certificate of preliminary acceptance.</p> <p>The customer will conduct a final examination after the expiration of the warranty period and issue a certificate of final acceptance.</p>
Warranty period	<p>The warranty period generally lasts for one year. We are only entitled to the final payment after the expiration of the warranty period.</p>
Delivery and installation	<p>We are responsible for the delivery and installation of all equipment.</p>

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Environmental Protection Facility Engineering Projects

We have a wealth of experience in designing and building environmental protection facility engineering projects such as desulfurization, denitrification and dust removal projects.

The following table sets forth the newly contracted capacity and contract value of our environmental protection facility engineering business during the period indicated:

	For the year ended December 31,			For the nine months ended September 30,
	2014	2015	2016	2017
Total contract value of newly contracted projects (RMB millions)	1,058.47	913.22	686.45	670.22
- Newly built	509.18	437.13	384.45	167.77
- Upgrade	549.29	476.09	302.00	502.45
Newly contracted installed capacity equivalent (MW) ⁽¹⁾	11,370	6,250	16,960	5,235
- Newly built	8,000	2,700	5,010	2,000
- Upgrade	3,370	3,550	11,950	3,235
Number of newly contracted projects	8	9	18	10
- Newly built	2	2	6	1
- Upgrade	6	7	12	9

Note:

(1) Scales of contracts for boiler upgrades are converted into installed capacity (expressed in MW) using their capacity (expressed in ton/hour) and the generally accepted correlation between boiler capacity and installed capacity.

As of September 30, 2017, we had 27 EPC projects under construction. The following table sets forth the status of our environmental protection facility engineering projects under construction as of September 30, 2017:

Environmental Protection Facility Engineering projects under construction	Type of project	Newly built/ upgraded	Date of contract (Year/ Month)	Aggregate contract value (RMB millions)	% of construction completed ⁽¹⁾
Shentou Electric Power Phase II Desulfurization System and WESP Project	Desulfurization and dust removal	Newly Built	2014/12	354.41	7.6% ⁽²⁾
Beihai Desulfurization Project	Desulfurization	Newly built	2015/11	149.57	— ⁽²⁾
Shouyang Green Island Project	Green Island	Newly built	2015/12	287.56	29.1% ⁽²⁾
Binzhou Phase II Dust Removal Project	Dust removal	Upgraded	2016/4	29.68	95.5%
Shangqiu Desulfurization Project*	Desulfurization	Newly built	2016/6	85.88	25.9%
Pingwei Phase I Flue Gas Desulfurization and Dust Removal Ultra-low Emission Upgrade Project	Desulfurization	Upgraded	2016/6	56.37	93.2%
Jingyuan No. 2 Power Plant #7 Unit Ultra-low Emission Upgrade Project*	Desulfurization	Upgraded	2016/6	43.00	99.8%
Jingyuan No. 2 Power Plant #8 Unit Ultra-low Emission Upgrade Project*	Desulfurization	Upgraded	2016/6	30.00	59.6%
Baotou No. 1 Thermal Power Plant #1-2 Unit Ultra-low Emission Upgrade Project*	Desulfurization	Upgraded	2016/8	8.88	87.9%
Jingjiang #2 Unit Desulfurization Ultra-low Emission Upgrade Project	Desulfurization	Upgraded	2016/8	5.30	81.2%
Linha #1-2 Unit Desulfurization Ultra-low Emission Upgrade Project*	Desulfurization	Upgraded	2016/8	40.98	85.8%

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Environmental Protection Facility Engineering projects under construction	Type of project	Newly built/ upgraded	Date of contract (Year/ Month)	Aggregate contract value (RMB millions)	% of construction completed ⁽¹⁾
Yangcheng #1-3 Unit Desulfurization Ultra-low Emission Upgrade Project	Desulfurization	Upgraded	2016/9	26.08	99.7%
Phase II Desulfurization EP Project in Serbia	Desulfurization	Newly built	2016/9	90.20	1.6%
Seawater Desulfurization System and Equipment Supply Project in Pakistan	Desulfurization	Newly built	2016/11	90.77	6.8%
Pu'an Denitrification Project*	Denitrification	Newly built	2016/8	9.80	54.5%
Daqing #1-2 Unit Desulfurization and Dust Removal Ultra-low Emission Upgrade Project*	Desulfurization and denitrification	Upgraded	2016/11	9.99	88.9%
Xinjiang New Energy #1-2 Unit Desulfurization Project*	Desulfurization	Newly built	2016/12	71.80	9.9% ⁽²⁾
Shanwei #3-4 Unit Desulfurization Ultra-low Emission Upgrade Equipment Supply and Construction Project	Desulfurization	Upgraded	2017/2	25.40	74.5%
Hangli Desulfurization Ultra-low Emission Upgrade Project	Desulfurization and dust removal	Upgraded	2017/2	48.86	70.2%
Shanghai Petrochemical Boiler Ultra-low Emission Upgrade Project	Green Island	Upgraded	2017/3	224.63	32.5%
Gaoqiao Denitrification System Supplies Procurement Project*	Denitrification	Upgraded	2017/4	16.99	7.7%
Nanyang Desulfurization Project*	Desulfurization	Newly built	2017/3	167.77	4.2%
Yangcheng Desulfurization Ultra-low Emission Upgrade Project	Desulfurization	Upgraded	2017/2	55.77	12.8%
Tianzi Lake Ultra-low Emission Upgrade Project	Desulfurization and dust removal	Upgraded	2017/7	38.00	3.1%
Hangli SNCR Denitrification Project	Denitrification	Upgraded	2017/8	1.18	—
Sinopec Guangzhou FCC Dust Removal Project	Dust removal	Upgraded	2017/9	0.50	—
Sinopec Shanghai #3-4 Unit Desulfurization Project	Desulfurization	Upgraded	2017/9	91.12	—

Notes:

* indicates projects on which we expect to incur net losses.

(1) Represents the percentage of completion as measured by the proportion that construction costs incurred for work performed to date relative to the estimated total construction costs.

(2) The construction of the project is temporarily on hold, subject to further adjustments of construction plans, pursuant to the instruction by the relevant government authorities. See “Risk Factors—Risks Relating to Our Business and Industry—If expansion of China’s coal-fired power installed capacity slows down, our business growth may be adversely affected.”

We have historically undertaken certain loss-making projects, primarily as a result of (i) unexpected changes in the construction plans as requested by our customers, (ii) our endeavor to expand into certain new markets or to develop business relationship with certain new customers, and (iii) our anticipation of acquiring future projects from the same customer. During the Track Record Period, we undertook 16 loss-making EPC projects with a total contract value of RMB976 million. The total losses incurred on these projects during the Track Record Period amounted to RMB48 million. See “Risk Factors—Risks Relating to Our Businesses and Industry—We have experienced loss-making EPC projects in the past, and may undertake loss making EPC projects in the future.”

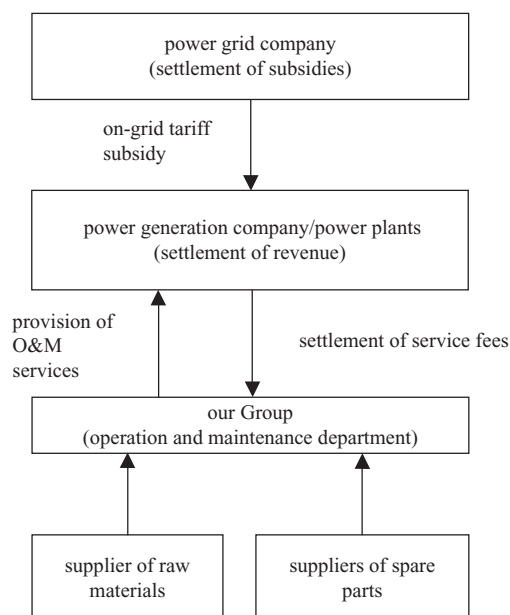
Operation and Maintenance Business

Introduction

Our operation and maintenance services mainly include operation service and regular maintenance service for desulfurization and denitrification facilities owned by our clients. We provide desulfurization, denitrification and dust removal operation service as a contractor and our work scope involves the full operation, repair, upgrade and maintenance of flue gas treatment system/facilities owned by power plants. We have operational responsibility for these facilities and equipment until the end of the contract period. Under our O&M projects, we charge our customers either a service fee for our O&M services calculated based on the total amount of on-grid electricity generated during the service period, or a price pre-determined at the commencement of the project based on the scope of work performed. During the period of the contracting operation, we are responsible for maintaining and operating the desulfurization, denitrification and dust removal facilities and equipment and ensuring that flue gas emissions of the relevant power plant are within the prescribed parameters. If as a result of our responsibility, the amount of flue gas emissions from the relevant power plant exceeds the statutory limit and causes fines or fees, we must indemnify the power plant for such fines or fees. During the Track Record Period, we have not been subject to any material fines or fees for exceeding the statutory limit on flue gas emissions. Our regular maintenance service includes the provision of technical support and professional trainings for and regular maintenance of our customers' flue gas treatment facilities and the provision of equipment testing and repair services and spare parts services.

Flow Chart for Our Operation and Maintenance Business

The flow chart sets out below is a brief description of our operation service under our operation and maintenance business.



Services provided to our customers under our operation and maintenance business primarily include the daily operation and the routine maintenance, examination and repair of their environmental protection facilities, as well as the supply of certain spare parts and certain inventories. We acquire new projects through bidding and tendering procedures that are similar to those for our EPC business,

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and may renew our contracts through negotiations with our customers upon the expiration of our service period.

Characteristics of Business Model and Revenue Recognition Policy

Revenues from our operation and maintenance business comprise service fee. We charge our customers for the O&M services using two primary methods. We may charge our customers based on the total amount of on-grid electricity generated over the service period and a price for each kWh of electricity, or, alternatively, based on a pre-determined price based on our scope of services. Revenues from our operation and maintenance business can generate recurring revenue stream and stable cash flow for us and at the same time, our extensive project experiences in operation and maintenance business has strengthened our competitive advantages in the flue gas treatment industry.

Revenues generated from the provision of maintenance service are recognized on a monthly or quarterly basis when our services are rendered.

Typical Contract Terms

The following table sets forth the major terms of typical O&M contracts that we entered into with our customers.

Major terms	Details
Our responsibilities as supplier	We are generally responsible for matters such as (i) ensuring the equipment and systems in the operation area function properly; and (ii) reporting any abnormalities or equipment errors arising during the operation.
Service period	The service periods for O&M projects range from months to years. We may negotiate with our customers to renew our contract upon their expiration.
Payment	We charge our customers for our O&M services based on the total amount of on-grid electricity generated during the service period and/or a pre-determined price based on the scope of work performed. Our service fees are generally settled by our customers on a monthly or quarterly basis.
Performance guarantee	Pursuant to certain contracts, we shall provide our customers a performance guarantee equal to 5% to 10% of the total contract price within a prescribed period of time upon execution of the contracts. The performance guarantee will be returned to us once the work is completed and the final payment is made.

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O&M Projects

We are a contractor who is able to provide desulfurization, denitrification and dust removal operation services, and our scope of business includes full-process operation, upgrading and maintenance of flue gas treatment system/facilities of coal-fired power plants. Regular maintenance services include provision of technical support, regular maintenance, facilities testing, maintenance services and spare parts services for customers' flue gas facilities. We renewed 100%, 57%, 83% and 88% of our O&M contracts that expired in 2014, 2015 and 2016 and the first nine months of 2017, respectively. The relatively low renewal rate in 2015 was primarily due to certain customers' decision to discontinue outsourcing the operation and maintenance of relevant facilities upon the expiration of our contracts.

As of September 30, 2017, we have 14 O&M projects under operation with an aggregate installed capacity of 19,680 MW. The following table sets forth the installed capacity and status of our O&M projects under operation as of September 30, 2017:

<u>Project name</u>	<u>Type of project</u>	<u>Starting date of service</u> (Year/ Month)	<u>Expiring date of service contract⁽¹⁾</u> (Year/ Month)	<u>Installed capacity</u>
Anshun Flue Gas Desulfurization O&M Project	Desulfurization	2007/11	2017/12 ⁽²⁾	2*300MW
Yangcheng #1-6 Unit Flue Gas Desulfurization O&M Project	Desulfurization	2008/7	2018/8	6*350MW
Yangcheng #7-8 Units Flue Gas Desulfurization O&M Project	Desulfurization	2008/6	2018/8	2*600MW
Yangcheng #7-8 Unit Slag Removal O&M Project	Slag removal	2009/6	2018/8	2*600MW
Kuche Flue Gas Desulfurization O&M Project	Desulfurization	2012/12	2020/12	2*330MW
Bulian Flue Gas Desulfurization O&M Project	Desulfurization	2013/4	2018/3	2*660MW
Qinzhou Desulfurization O&M Project	Desulfurization	2015/7	2018/6	2*630MW+ 2*1000MW
Guotai Flue Gas Desulfurization, Denitrification and Slag Removal O&M Project	Denitrification, desulfurization and slag removal	2015/11	2018/6	2*350MW
Jingjiang Flue Gas Desulfurization and Dust Removal O&M Project	Desulfurization and dust removal	2016/3	2018/3	2*660MW
Tianjin SDIC Jinneng Power Plant Desulfurization, WESP and Water Intake System Operation and Cleaning Project	Desulfurization	2016/8	2020/12	4*1000MW
Serbian Flue Gas Desulfurization O&M Project	Desulfurization	2017/5	2018/5	2*350MW
Yangxi Flue Gas Desulfurization and Denitrification O&M Project	Desulfurization and denitrification	2017/1	2025/12	2*660MW+ 2*600MW
Chengde Desulfurization O&M Project	Desulfurization	2017/5	2018/5	2*350MW
Anshun #1-2 Units Maintenance and Repair Service Project	Desulfurization	2017/9	2018/8	2*300MW

Notes:

- (1) We may further renew our service contract with our customer upon expiration based on our negotiation with customers.
- (2) The customer is currently selecting the O&M service provider for the year starting January 1, 2018. We are actively bidding for the renewal of this O&M project. As of the Latest Practicable Date, the bidding and tendering process for this project was not completed.

Transactions with Yangxi

In mid-2016, we commenced our business relationship with Guangdong Huaxia Electric and Yangxi Electric. On December 31, 2016, we entered into the Yangxi Management Service Agreement with Guangdong Huaxia Electric and Yangxi Electric in relation to the provision of O&M services in respect of the Yangxi Facilities. To ensure that the operation of the Yangxi Facilities are compliant with the applicable emission standards, the Yangxi Facilities needed to be upgraded through the construction of “ultra-low emission” units. Accordingly, for #1-#2 facilities, we entered into an “ultra-low emission” upgrade project cooperation agreement with Yangxi Electric (“**Upgrade Project Cooperation Agreement**”) on December 31, 2016 to construct the Upgrade Units. The construction, inspection and acceptance of the Upgrade Units were completed in July 2017(#1) and December 2017(#2), respectively. Details of the Upgrade Project Cooperation Agreement is set out in “Connected Transactions—Non-exempt Continuing Connected Transactions—Yangxi Project”. The construction of the “ultra-low emission” upgrade units for #3-#4 facilities has already been completed by Yangxi Electric prior to the parties’ entering into the Upgrade Project Cooperation Agreement, and therefore we did not undertake the upgrade work for #3-#4 facilities. On January 1, 2017, Beijing Boqi, Yangxi Electric and Guangdong Huaxia Electric further entered into a supplemental agreement solely to determine the pricing terms of the Yangxi Management Service Agreement (the “**Yangxi Service Pricing Agreement**”). On August 28, 2017, we entered into a supplemental agreement with Guangdong Huaxia Electric and Yangxi Electric (the “**Yangxi Supplemental Management Service Agreement**”, together with Yangxi Management Service Agreement and the Yangxi Service Pricing Agreement as “**Yangxi Agreements**”) to supersede and extend the term of the services under the Yangxi Management Service Agreement from January 1, 2017 to September 30, 2017 to a term from January 1, 2017 to December 31, 2025. Details of the Yangxi Agreements are set out in “Connected Transactions—Non-exempt Continuing Connected Transactions—Yangxi Project”.

Under the Yangxi Agreements, we provide ordinary O&M services to Yangxi Electric for the Yangxi Facilities under our typical O&M business model, which includes the operation, daily maintenance and repair of the Yangxi Facilities. To comply with stringent emission standards, and minimize operational risk while also minimizing the costs to be incurred, Yangxi Electric engaged Beijing Boqi, being a leading independent and recognized flue gas treatment integrated service provider, to be the sole desulfurization and denitrification service provider for its power plant. In addition to the O&M services, we also provided Yangxi Electric with the designing, procurement and construction services for the Upgrade Units under The Upgrade Project Cooperation Agreement with the costs of construction borne by our Group in order to obtain the “ultra-low emission” subsidy received in connection with the Upgrade Units. Accordingly, our Group owns the Upgrade Units free from any encumbrances and can detach such Upgrade Units from the #1-#2 facilities at any time without impeding the technical operation of the #1-#2 facilities.

There is currently no provision under the Yangxi Agreements providing for future plans for the Upgrade Units upon the expiry of the Yangxi Agreements. Should we continue to provide O&M services to Yangxi Electric for the Yangxi Facilities, upon and subject to the terms and conditions to be agreed by the parties at that time, we will continue to own the Upgrade Units. However, should we

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cease to provide O&M services to Yangxi Electric for the Yangxi Facilities, we may sell and transfer the Upgrade Units to Yangxi Electric, upon and subject to the terms and conditions to be agreed by the parties at that time.

For further details on the connected transactions between our Group and Yangxi Electric, please see “Connected Transactions—Non-exempt Continuing Connected Transactions—Yangxi Project”.

Concession Operation Business

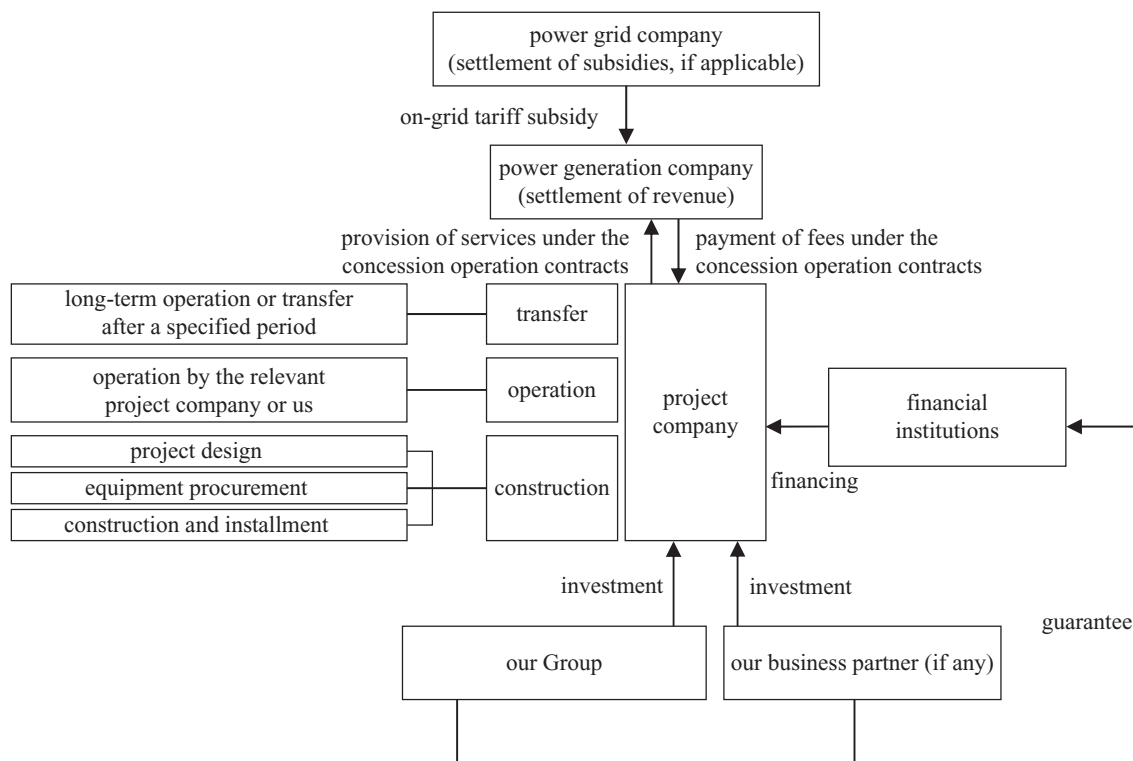
Introduction

Under our concession operation business model, we are responsible for the financing, investment, construction and upgrade of a project according to the concession contract with our client. We normally fund the concession projects by our own capital or borrowings from local banks. After the completion of constructions, we also own the project assets and operate the project for a period pre-defined in the concession agreement, which is typically 15 to 20 years, and we are also entitled to collect revenues generated from the project during the term of the contract. Revenues generated by our concession operation business during the operation phase of the relevant projects are calculated based on the on-grid power generation of the customer using the unit price specified in the concession contract during the operation phase, which is generally settled with our customers on a monthly basis. Revenue from the operation of our concession projects also includes income from our sales of by-products during the operation of the environmental protection facilities. At the end of the concession period specified in the concession agreement, we transfer the ownership and operational responsibilities of the project to our client. The fees we receive for the provision of concession services under our concession contracts typically include a service fee based on a guaranteed minimum flue gas treatment volume and such fees are contingent subject to adjustment of certain variable cost we incurred. Such tariff subsidy are pre-determined at the time we enter into the concession agreement with our client.

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Flow Chart for Our Concession Operation Business

The flow chart set out below is a brief description of our concession operation business.



The factors we consider when selecting our concession operation projects include (i) our expectation on the development of the economy, energy and electricity industry and the environmental protection industry in the PRC, (ii) the background and creditworthiness of the potential client, and (iii) the details of the project, including concession period, installed capacity, electricity generating hours, capital expenditures required, price and costs of our services and related risks. Concession operation projects are subject to our internal approval procedures before we take on new projects to ensure that our investment in concession operation projects can be fully recovered.

During the Track Record Period and as of the Latest Practicable Date, all our concession operation projects were conducted through BOT model. Under the BOT model, we are responsible for investing and constructing the project, as well as the project operation and management in the concession period. During the concession period, we recognize revenue with our customers based on the on-grid power generation pursuant to the concession contracts on a monthly basis. The facilities will be transferred to our customers upon the expiration of the concession period at nil consideration. Under the BOT model, we usually establish a project company to take charge of the fund raising at the initial stage as well as the operation and maintenance at a later stage.

We may, in the future, carry out the concession business under TOT/TOO model as a supplement to BOT model. Under the TOT/TOO model, we would purchase existing environmental protection facilities from customers, and carry out the operation and management of the project. We will select target projects based on our overall development strategy, business operations and funding conditions. We primarily target high-quality pollution treatment facilities under stable operation and

with stable cash flows. We expect to expand the scale of our concession operation business through the TOT/TOO model.

Characteristics of Business Model and Revenue Recognition Policy

Characteristics of Business Model

Our project company charges a fee during the concession period to cover our investment and cost of operations and maintenance and to earn reasonable returns. Our rates are predetermined upon the execution of the project agreement and are subject to adjustment with reference to factors such as coal quality, importing parameters, electricity generating hours and emission index. Under certain circumstances, we enter into agreement with our customers to calculate guaranteed fees according to minimum treatment capacity and such fees are contingent and subject to adjustment of certain variable cost we incurred.

We set the prices for our BOT projects after diligent calculation so that we can expect the full recovery of our investment for the project and our operation and maintenance costs, as well as earning a reasonable return. We calculate the expected investment payback period based on, among others, the total amount of our investment, the installed capacity of the power generating facilities, prices for our services, estimated costs of operations and our estimation of the electricity generating hours of the project. The total amount of our investment is determined based on the standards that our environmental protection facilities are to be met according to our contracts with customers. The installed capacity of the facilities and the prices for our services are determined based on our contracts with customers and with reference to the applicable on-grid tariff subsidies. The operation costs are estimated based on, among others, the installed capacity of the facilities, utility costs, emission standards to be met, staff required to operate the facilities and the local salary levels. The expected electricity generating hours are estimated based on our contracts with customers, and the operational history of the power plant. For the expected payback period for our investment in our BOT projects, please see “—Concession Projects”. The expected payback periods for our existing BOT projects range between six to nine years upon the commencement of construction of the projects, while our service periods are substantially longer, ranging from 15 to 21 years. Therefore, our Directors believe that we can fully recover our investments in all our existing BOT projects.

The concession operation business can generate recurring revenue stream and stable operating cash flows for us during the contract period. Meanwhile, due to the long operation period, the project company has higher motivation to adopt advanced technologies to ensure stable quality and maintain a low operating cost.

We set up a remote data real-time monitor system for the O&M projects in the headquarter of the Group, making full use of the advantages of the Internet and the terminal equipment to keep informed of the operation of the system and equipment on the construction site on a real-time basis and guide the operation of the project system in safe and energy-saving way.

Revenue Recognition Policy

Revenue from concession operation projects are recognized during both the construction and operation phases.

Revenue from the construction of concession operation projects is recognized during the construction of our concession projects in line with the construction progress, and intangible assets are

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recognized to reflect future rights to operate the concession facilities and to receive income. Revenue from the construction of our concession operation projects is determined based on the construction costs incurred and a fixed gross profit margin of 1%, which was set when we undertook our first concession operation project in 2008. The 1% gross profit margin for the construction of our concession operation projects was determined with reference to our historical experience with the gross profit margins for our past EPC projects, including loss-making EPC projects, prior to 2008. We use this revenue recognition method for the construction of our concession operation projects because (i) there is no actual cash income generated during this stage, (ii) our activities and accomplishments during the construction of concession operation projects are fairly similar to those of our EPC business, and (iii) the cost of construction can be fairly accurately ascertained. We have applied the 1% gross profit margin consistently since 2008 and periodically reviewed the reasonableness of such gross profit margin. As revenue from the construction of concession operation projects represented only a small percentage of our total revenue, changes in the gross profit margin for the construction of concession operation projects will not have a material impact on the presentation of our results of operations. For demonstration purposes only, if the gross profit margin for the construction of concession operation projects increased from 1% to 5%, the total revenue of the Group would have increased only by nil, 0.24%, 0.35% and 0.25% for the year ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, respectively.

Revenues from operation of concession projects consist of service fees paid by the coal-fired power plant which are charged by reference to the tariff subsidy according to the on-grid power generated by the power plant on a per kilowatt hour basis, and is recognized during the operation of our concession projects. Please see “Financial Information—Critical Accounting Policies, Judgments and Estimates—Revenue Recognition”, “Financial Information—Critical Accounting Policies, Judgments and Estimates—Intangible Assets” and “Financial Information—Critical Accounting Policies, Judgments and Estimates—Impairment of Tangible and Intangible Assets”, as well as Note 4 to our historical financial information set forth in Appendix I—“Accountants’ Report”. The fluctuations in our revenue generated from concession operation business are principally attributable to changes of construction and operation phases.

Typical Contract Terms

The following table sets forth the major terms of our typical BOT contracts.

Major terms	Details
Concession operating right	Typically, customers will grant the concession operating right of desulfurization/denitrification/dust removal facilities to us. During the concession period, we have the exclusive concession operating right to invest, design, construct, operate, maintain and management the desulfurization/denitrification/dust removal facilities, while customers shall pay us in accordance with the terms set out in the contracts.
Concession period	The concession period is typically 15-20 years upon passing of the 168 hour trial operation and the environmental protection inspection.

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Major terms	Details
Land expropriation	Customers are generally responsible for handling the basic construction procedures, such as the expropriation of the land for desulfurization/denitrification/dust removal facilities and construction work. The land use rights owned by the customer are provided to us with nil consideration.
Financing and construction phase	According to the contract, we shall be responsible for the investment, construction of the project and purchase of environmental protection equipment. In addition, we shall raise sufficient funds for the project in a timely basis, ensure that the construction project will be completed as scheduled, pass the trial operation and put the project into commercial operation.
Operational phase	Our project company operates the environmental protection facilities constructed by us under the concession operation contract, charges customers to recover the investment, operation and maintenance costs and gains reasonable returns.
Pricing and Payment	We refer to the on-grid tariff subsidy standards under the governmental guidance when we set the price. We generally require our customers to make monthly progress payment once our customers receive the revenue from electricity generation.
Arrangement after the expiry of the concession period	After the expiry of the concession period, we generally transfer the operational right, revenue right, total assets, facilities and equipment of the desulfurization/denitrification/dust removal facilities to customers without receiving additional payment while making sure that the desulfurization/denitrification/dust removal facilities meet a certain standard.

Concession Projects

Apart from environmental protection facility engineering and operation maintenance business, we provide desulfurization, denitrification and dust removal services through concession operation business model. Under this business model, we serve both as an engineering and construction service provider and as an environment protection facilities operator. We also provide Green Island services through concession operation business model. The services provided are primarily a string of treatment

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services of coal-fired power plants tail flue gas including desulfurization in boiler, SNCR denitrification, SCR denitrification, electrostatic or electric bag dust removal, desulfurization and wet electricity, as appropriate, to satisfy the emission requirements of SO₂, NO_x and dust. Our typical concession period lasts 15-20 years. Standard design life of power plants in China is approximately 30 years.

We commenced desulfurization concession operation business in 2008 and gradually contracted concession operation projects. We are also flue gas treatment service providers with respect to denitrification services through concession business model. We commenced denitrification concession operation in 2012.

Our capital strength and sound historical financial performance allow us to continuously invest in concession operation projects. In addition, our in-depth understanding of the management and operation of coal-fired power plants equips us with essential skills required for a project operator and business partner, and also allows us to establish cooperation relationships with coal-fired power plants during long-lasting concession contract periods.

As of September 30, 2017, we had two concession operation projects under construction and four concession operation projects in operation. The following table sets forth certain key information of our existing concession operation projects as of September 30, 2017.

Project name	Installed capacity	Type of project	Newly built/ upgraded	Total investment	Date of contract	Ending date of concession period	Expected payback period of investment (approximate years)	Construction completion date ⁽²⁾
				RMB millions	(Year/Month)	(Year/Month)		
Jiangxi Jinggangshan BOT Project	2*300MW + 2*660MW	Desulfurization	Newly built	223.74	2008/1 (for Phase I) 2008/8 (for Phase II)	2030/7 (for Phase I) 2030/12 (for Phase II)	6	Completed in October 2009 (for Phase I) Completed in December 2010 (for Phase II)
Shanxi Hejin BOT Project	2*350MW	Denitrification	Newly built	89.93	2012/6	2033/9 (for Unit #1) 2033/5 (for Unit #2)	7	Unit #2 completed in May 2013; Unit #1 completed in September 2013
Shanxi Puzhou Phase I BOT Project	2*300MW	Denitrification	Newly built	84.40	2012/6	2034/1 (for Unit #1) 2033/5 (for Unit #2)	8	Unit #2 completed in May 2013; Unit #1 completed in January 2014
Shanxi Puzhou Phase II BOT Project	2*350MW	Desulfurization	Newly built	111.88	2014/5	End of 2037	8	Completed in December 2017
Shanxi Yuguang BOT Project	2*300MW	Green Island	Upgraded	82.36	2015/5	2036/2 (for Unit #1) 2035/5 (for Unit #2)	7	Unit #2 completed in December 2015; Unit #1 completed in February 2016
Xinjiang Shenhua BOT Project ⁽¹⁾	4*350MW	Green Island	Upgraded	490.07	2017/6	End of 2032	9	Unit #1 completed in September 2017; Unit #2, Unit #3 and Unit #4 are expected to be completed by the end of 2018

Notes:

- (1) For our Xinjiang Shenhua BOT Project, we acquired certain flue gas desulfurization, denitrification and dust removal facilities, which we in turn upgrade at our own expenses. We expect to recover our investments in the acquisition and upgrading of the relevant facilities through the service fees we charge during the subsequent concession operation period.
- (2) As of the Latest Practicable Date.

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As of September 30, 2017, we have recovered all of our investments in the Jiangxi Jinggangshan BOT Project. For the two BOT projects under construction, we expect to incur capital expenditures of RMB1 million and RMB3 million, respectively, for Shanxi Puzhou Phase II BOT Project for the three months ending December 31, 2017 and the year ending December 31, 2018, and RMB24 million and RMB78 million, respectively, for Xinjiang Shenhua BOT Project for the three months ending December 31, 2017 and the year ending December 31, 2018. We may, after the commencement of operations of our concession operation projects, make further capital investments into our existing concession operation projects in connection with the “ultra low” emission upgrades of the facilities. The actual amount of additional investment and the subsequent recovery of such investment will be determined based on our negotiation with customers when such upgrading is required.

In addition, we hold 30% equity of Han Chuan Long Yuan BoQi Environmental Technology Co., Ltd. As of the Latest Practicable Date, Han Chuan Long Yuan BoQi Environmental Technology Co., Ltd. operated the 4*330 MW Units Desulfurization and 2*1000MW Units Desulfurization and Denitrification through concession operation. The terms of concession operation is the same as the lifetime of power generating facilities of the projects located at.

Flue Gas Desulfurization

Overview

We provide flue gas desulfurization services to some of the state-owned and leading local enterprises in the power generation industry in China, including five national power groups. According to Frost & Sullivan, in terms of cumulative installed capacity as of December 31, 2016, we are the largest independent flue gas desulfurization EPC projects service provider for coal-fired power plants in China and the second largest desulfurization EPC projects service provider for coal-fired power plants in China; in terms of cumulative capacity in operation as of December 31, 2016, we are the third largest independent flue gas desulfurization concession operation service provider for coal-fired power plants in China and rank seventh among flue gas desulfurization concession operation service providers for coal-fired power plants. Our denitrification business is conducted through EPC projects and in accordance with concession operation model. During the Track Record Period, we designed and built multiple projects with significant importance to the industry, including Shandong Nanshan Green Island project (3*330 MW), Shanxi Yuguang Green Island “ultra-low emission” concession operation project (2*300MW) and Shandong Shouguang desulfurization project (2*1000MW).

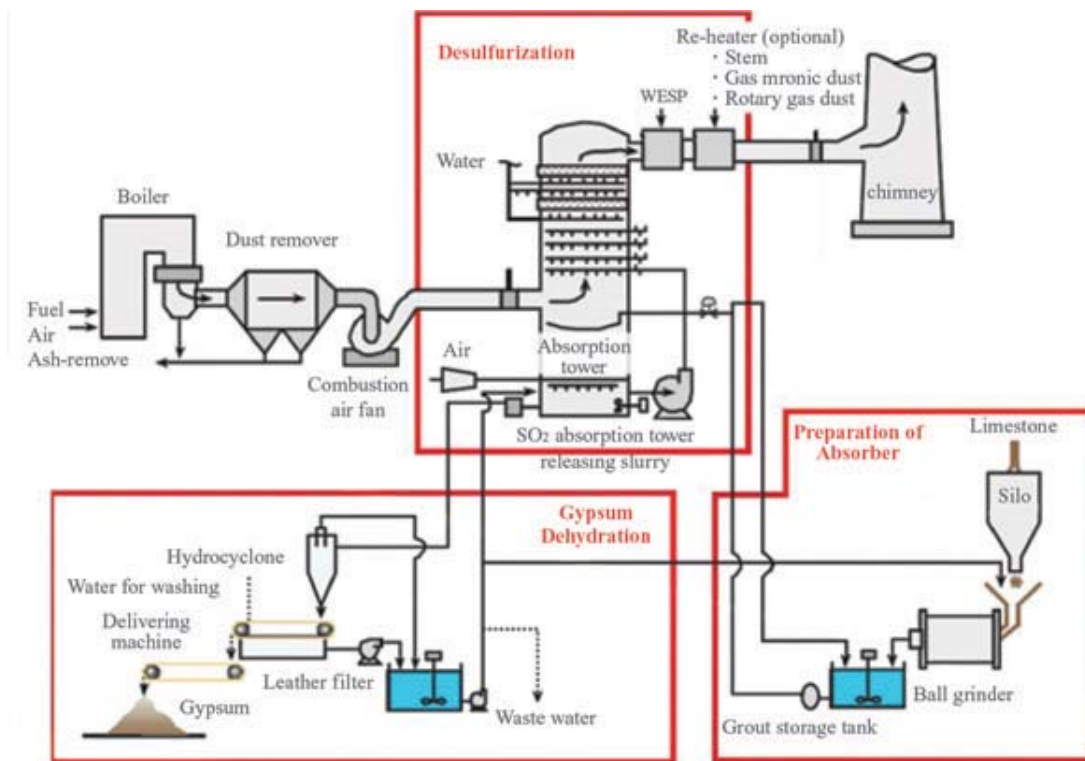
BUSINESS

Leveraging our experience accumulated in desulfurization EPC projects and desulfurization operation and concession projects, we have obtained expertise and maintained a team of professional technicians extensively experienced in all aspects of the flue gas desulfurization process from the design, construction and installation and testing of appliances and relevant facilities to equipment procurement and construction. As of September 30, 2017, our flue gas treatment technology is granted 32 patents (four of them are integrated denitrification and desulfurization technology). We have developed a variety of flue gas desulfurization processes which are suitable for power plants with different operating conditions:

Technology Applied under our Flue Gas Desulfurization Process

Technology	Features
Limestone-gypsum WFGD	<ul style="list-style-type: none"> ● Widest application and most mature technology; ● By-product gypsum is a usable construction material; and ● The appliances which utilize this technology constitute most of our desulfurization appliances installed and contracted, measured by accumulated capacity during the Track Record Period.
Seawater desulfurization	<ul style="list-style-type: none"> ● Suitable for power plants located at coastal areas with easy access to seawater; ● No absorbent, desulfurization by-product or secondary pollution;
Ammonia desulfurization	<ul style="list-style-type: none"> ● Producing by-product ammonium sulfate, which can be used as a nitrogenous fertilizer; ● Suitable for power plants located in dry areas such as the northeastern provinces in China; and
Dry (semi-dry) desulfurization	<ul style="list-style-type: none"> ● Occupies limited area, simple system, low investment and low operating cost, suitable for small to medium sized power plants; and ● Dry end-products and convenient for transportation, recyclable with economic benefits.

The below chart simply describes our process based on limestone gypsum flue gas desulfurization technology:



Flue Gas Denitrification

Overview

We have been engaged in the flue gas denitrification business since 2006. We are in the leading position in the industry of flue gas denitrification for coal-fired power plants. According to Frost & Sullivan’s statistics, in terms of cumulative installed capacity as of December 31, 2016, we are the fourth largest independent flue gas denitrification EPC projects service provider for coal-fired power plants in China and rank tenth among flue gas denitrification EPC projects service providers for coal-fired power plants in China; in terms of cumulative capacity in operation as of December 31, 2016, we are the third largest independent flue gas denitrification concession operation service provider for coal-fired power plants in China and rank eighth among flue gas denitrification concession operation service providers for coal-fired power plants.

We mainly provide our NOx emissions reduction services through SCR and SNCR technology. SCR is a post- combustion method which addresses NOx emissions after their formation. SNCR and low-NOx combustion are combustion control methods which prevent the formation of NOx emissions during the combustion stage.

On September 22, 2011, the NDRC announced new emissions standards for all power plants nationwide which substantially lowered the NOx emissions limit, which standards has become effective on January 1, 2012. In December 2015, the State Council decided to implement the “ultra-low

emission” and energy conservation upgrade on coal-fired generator sets comprehensively by 2020, in order to lower the coal consumption and pollution emission significantly.

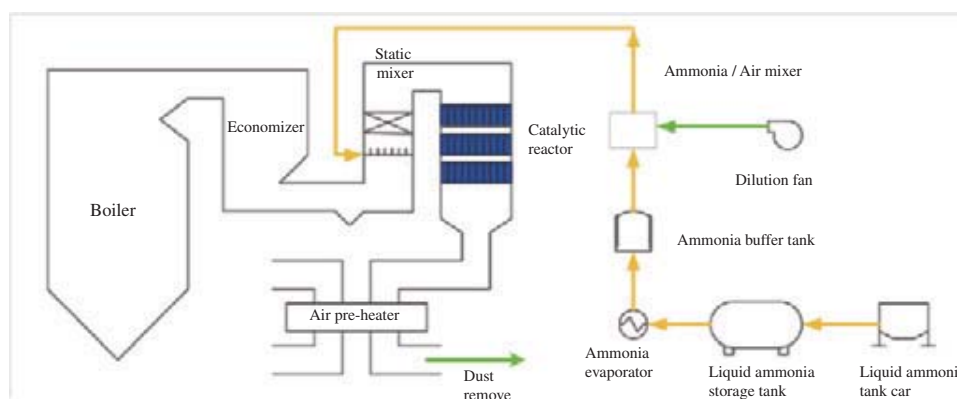
We provide flue gas denitrification services based on various technologies to our customers.

Technology Applied under our Flue Gas Denitrification Process

SCR

SCR or Selective Catalytic Reduction is the most commonly-used post-combustion denitrification technology world-wide. SCR converts NO_x with the aid of a catalyst introduced into nitrogen gas and water. SCR is has also become the mainstream post-combustion denitrification method in the PRC because of its high reliability, use of advanced technology and high NO_x removal efficiency. We were among the first domestic companies to research, develop and use this cutting-edge SCR technology in China and pioneered many projects. For example, Diandong Power Plant 4*600MW, Weixin Integrated Project Phase One 2*600MW and so on. As of September 30, 2017, our technologies for flue gas denitrification have gained 11 patents (four of them are integrated denitrification and desulfurization technology) in China.

The workflow chart below simply describes our flue gas denitrification process based on SCR denitrification technology:



SNCR

We also provide selective non-catalytic reduction or SNCR denitrification services, based on a denitrification method used in the boiler and which can be used together with low-NO_x combustion methods or SCR methods to effectively control formation of, and to remove, NO_x in the boiler. As of September 30, 2017, based on SNCR denitrification technology, we have completed the Shanxi Yuguang unit project (2*300 MW) and we are constructing the Shanxi Shouyang power generation units (2*350 MW) and will further explore new market opportunities in this area.

Dust Removal

Overview

We provide our dust removal services based on our proprietary low-low temperature dust removal technology and wet ESP technology. Dust removal, part of our integrated services offered to power plants, complements our other emissions control technologies and forms synergies with our

desulfurization and denitrification services. We have accumulated significant experience in the design, installation, commissioning, maintenance and management of dust removal systems of power plant boilers, and successfully finished many projects in several large power plants in the PRC. We possess advanced technologies in dust removal systems. As the newly promulgated *Power Plant Air Pollutants Emission Standards* (《火電廠大氣污染物排放標準》), which came into effect since January 1, 2012, has tightened dust emissions standards for power plants to 20 mg/m³. In December 2015, according to the *Proposals for Comprehensively Implementing the Ultra-low Emissions and Energy-saving Upgrade of Coal-fired Power Plants* issued by the MEP, NDRC and National Energy Administration, the “ultra-low emission” standard is 10mg/m³. We anticipate that newly built power plants and existing power plants installed with non-compliant dust removal appliances will need to install or upgrade to more efficient appliances, such as our WESP.

Technology Applied under our Flue Gas Dust Removal Process

The low-low temperature dust removal refers to the technology of using flue gas cooler before the flue gas passing through the ESP to reduce the temperature of the flue gas to below 85°C, which allows the effective removal of SO₃ and improves the collection efficiency of ESP. The application of low-low temperature dust removal can control the emission of PM_{2.5}, allows the residual heat recovery and lowers the water consumption of desulfurization system. We have developed our own low-low temperature dust removal technology together with Hitachi (China) Ltd. and successfully applied such technology in our 1*1000MW power generator set project in Pinghai of Guangdong province. Our dust removal technology has been awarded three patents in total in China as of September 30, 2017.

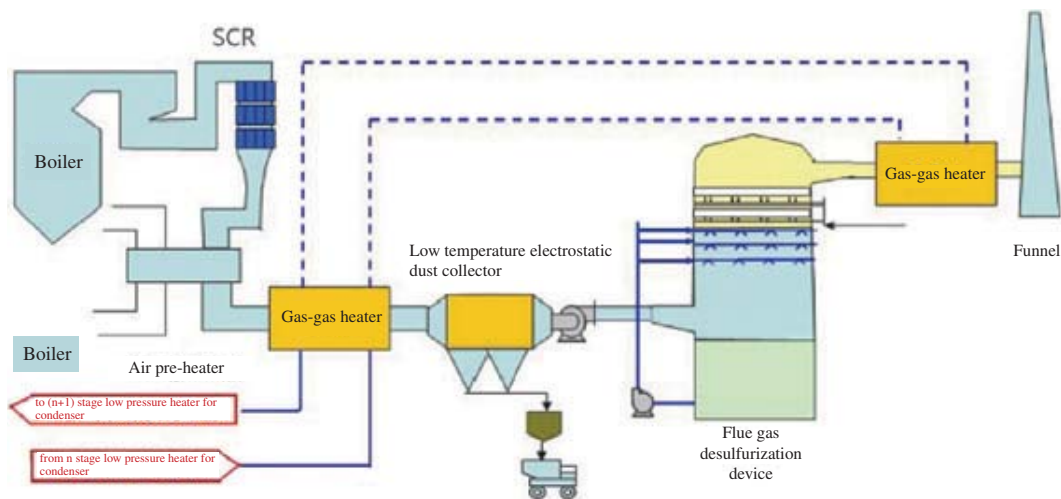
WESPs operate with water vapor saturated air streams, and are commonly used to remove fine particles and liquid droplets such as PM_{2.5} and sulfuric acid mist from industrial process gas streams. WESPs are also commonly used where the gas is rich in moisture content or contain combustible or viscous particles. WESPs are installed either vertically (with vertical current) or horizontally (with horizontal current) and condense vapor to form, or spray, a moving aqueous film on the dust-collecting plate, which helps to remove the dust absorbed by the dust-collecting plate.

Technologies of Comprehensive Flue Gas Treatment System (Green Island) Business

We have also applied industry-leading ZFD pollution control technology to offer comprehensive flue gas treatment services, including employment of denitrification, desulfurization and dust removal technologies. Our comprehensive flue gas treatment system can achieve 99.5% or above desulfurization efficiency, 95% or above denitrification efficiency, 99.8% or above dust removal efficiency and 100% compliance with waste water discharge standard and highly-efficient demercuration.

BUSINESS

The flow chart sets out below is a brief description of our comprehensive flue gas treatment process based on the “Green Island” technology:



PRICING POLICY

We adopt differentiated pricing policy according to the characteristics of our respective business models and the market practice in the flue gas treatment industry in China. The table below sets forth information on our pricing policy under each of our major business models.

Business Model	Pricing Strategy
Environmental Protection Facility Engineering	The following considerations are taken into account: <ol style="list-style-type: none"> 1. cost for our design and engineering services; 2. cost for our construction and installment outsourcing and management services, including fees paid to our subcontractors; 3. cost for our procurement of equipment and raw materials 4. reasonable returns, including profits gained through sale of equipment procured from third-party suppliers; and 5. comparison with average market price for similar projects.
Operation and Maintenance	The following considerations are taken into account: <ol style="list-style-type: none"> 1. cost for our projects operation and facilities maintenance services; 2. on-grid tariff subsidy standards included in benchmark on-grid tariff, which is under the governmental guidance. Currently, the desulfurization tariff is RMB0.015 per kWh (value-added tax included), the denitrification tariff is RMB0.01 per kWh (value-added tax included), the dust removal tariff is RMB0.002 per kWh (value-added tax included) and the “ultra-low emission” tariff is RMB0.01 per kWh (value-added tax included); 3. average sulfur and nitrogen content and dust volume of flue gas emission of the power plant and the standards to be met, the power generation volume and the location; 4. reasonable returns, including profits gained through sale of reserve parts, spare parts and materials for flue gas treatment equipment procured from third-party suppliers; and 5. comparison with average market price for similar projects.

BUSINESS

Business Model	Pricing Strategy
Concession Operation	<p>The following considerations are taken into account:</p> <ol style="list-style-type: none">1. our total costs incurred for our concession operation services, including financing cost for our investment in the projects and cost of operation and cost for our construction services;2. the length of our service period;3. on-grid tariff subsidy standards included in benchmark on-grid tariff, which is under the governmental guidance. Currently, the desulfurization tariff is RMB0.015 per kWh (value-added tax included), the denitrification tariff is RMB0.01 per kWh (value-added tax included), the dust removal tariff is RMB0.002 per kWh (value-added tax included) and the “ultra-low emission” tariff is RMB0.01 per kWh (value-added tax included);4. reasonable returns on investment;5. average sulfur and nitrogen content and dust volume of flue gas emission of the power plant and the standards to be met, the power generation volume and the location; and6. comparison with average market price for similar projects.

In certain circumstances, we may offer our service at a price that is not profitable in order to attract new customers or sell additional services to customers, in the hope of building a customer base and securing future businesses. We have implemented a number of measures to prevent or minimize losses, as well as spent great efforts in cost control and market developments. See “Risk Factors—Risks Relating to Our Business and Industry—If we are unable to accurately estimate the overall risks, revenues or costs of our projects, we may gain lower than anticipated profits or even incur losses on our contracts.”

SALES AND MARKETING

Project Selection

We obtain our new projects either through participation in a formal public bidding process or by negotiable bidding with our customer. Our sales and marketing team sources potential projects from a wide range of channels, including local news, information from local governments, industry associations and our long-term customers. To safeguard our investment and mitigate the risks involved in our projects, we pay special attention to the certain factors, including but not limited to:

- Environmental protection facility engineering projects mainly focus on the nature and credit risk of customers, location of the project, installed capacity, technical requirement based on relevant parameter conditions of SO₂, NO_x or dust passage and work duration.
- O&M projects mainly focus on the nature and credit risk of customers, installed capacity, technical requirement based on relevant parameter conditions of SO₂, NO_x or dust passage, power generation capacity and scope and model of business undertaken.
- Concession operation projects mainly focus on local economy, the nature and credit risk of customers, financial condition, installed capacity, technical requirement based on relevant parameter conditions of SO₂, NO_x or dust passage, power generation capacity, estimated investment, financing source of the project and terms of financing, the tariff rate and the concession term of the project to assess the expected profitability of the project. Generally, we only tender for projects which, based on our assessment, will meet our internal profitability requirements.

Tender Process

We normally win a project through a tender process (both public tender and tender by invitation). Information on tenders is generally available via Internet bidding solicitation platform or by invitation. After the start of the tender process, we will establish a tender team to prepare a tender proposal and other supporting documents in accordance with requirements specified by the issuer of the tender, undertake an assessment of the technical requirements, cost and profitability of the project, and submit a competitive bid for the tender. Meanwhile, we will prepare an estimated budget based on, among other things, the work scope and requirements contained in the tender invitation. The final tender proposal for the tender usually has to be submitted in accordance with the time specified by the bidding inviting party.

Once we are awarded the tender, we enter into a project contract with our customer and sub-contracting agreement with our subcontractors with respect to the installment and construction work (the arrangements of sub-contracting agreement with our subcontractors shall be permitted by the tender document or approved by the issuer of the tender). Subsequently, we start detailed planning and designing the facilities in accordance with the requirements set out in the project contract. Accordingly, we need to conduct on-site inspections and prepare site surveys and studies. Designs and specifications will be checked and approved internally before submission to the respective customer for confirmation. These documents serve as a basis for the detailed design drawings that are prepared by us. We also formulate a detailed target budget in accordance with the requirements and specifications provided in the contract. The formulation and any subsequent adjustment to the detailed target budget is subject to the approval by our business decision committee.

For those projects that do not involve a tender process, the presales phase of our projects begins when we are contacted directly by a customer interested in placing an order. A customer may invite several flue gas treatment service providers to negotiate for the contract for its project.

Marketing

During the Track Record Period, a substantial part of our revenue was generated from our business operations in the PRC. We plan to continue to focus on this market and expand our international market at the same time. Our sales and marketing team has formed both short-term and long-term marketing strategies which focuses on close working relationships with our key major customers and is supplemented by regional sales, based on our customer classification criteria. Our marketing strategy aims at enhancing our brand awareness among our potential customers and improving brand recognition among existing customers. Leveraging our experience in market development of the power industry in China, we can implement effective marketing strategies which specifically targets quality customers in the power industry.

We are also exploring overseas markets where coal-fired power contributes a significant portion of the total power generated, such as Southeast Asia and Latin America. We have formulated our overseas expansion strategies based on market research and analysis, with a particular focus on the average technical level of the local market and market competition. We obtained a majority of our overseas flue gas treatment business through sub-contracting arrangement with certain local general contractors of the relevant projects. We have undertaken more than ten desulfurization or denitrification projects located in Europe, South Asia, Latin America, Africa and Southeast Asia since 2007.

BUSINESS

Most sales and marketing within our Group and among different business segments is conducted via direct sales to the end-users of our services. Such marketing model allows us to share sales and marketing resources, including talent, customer contacts and relevant market information. Our services typically have a similar target clientele because of technologies employed and their relevance to power plants. Further, similar clientele among our different business segment supplements each other in our development of new clients in the same geographic areas. Furthermore, most of the services that we provide have similar business models such as environmental protection facility engineering and concession operations, which share similar bidding processes, and we are able to transfer, replicate and apply our successful experiences in sales and marketing in areas in which we have a relatively long history of operation to those business areas in which we have recently entered.

After-Sales Services

We provide after-sales services to our customers as part of our flue gas treatment business. Typically, we provide one-year after-sales services in relation to our EPC services, from the date on which our projects are completed. For our desulfurization or denitrification concession businesses, we do not provide after-sale services as we are the operator of the projects.

We set up a practical customer service system for customers and propose a concept of “Green Doctor” to render services for customers. We will record the problems, difficulties, advice and requirements encountered by customers during the production process in details, and timely notify our technical personnel and professional staff for handling.

CUSTOMERS

Our customers consist primarily of national or local coal-fired power plants and coal-fired power plants owned by large industrial groups, including the Five Largest Power Groups. Leveraging our deep understanding of the industry and competitive strengths in experience, technology and service quality, we have established and maintained long-term relationships with our customers. We are also developing customers in other industries, such as petrochemical, non-ferrous metal smelting, iron and steel, and manufacture of other industrial appliances, which also face the challenges and regulatory requirements of environmental protection and energy conservation.

BUSINESS

As our business is project-driven, we are not dependent on any specific customer for the success of our business. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, sales to our single largest customer accounted for 18.3%, 12.4%, 9.8% and 17.7%, respectively, of our total revenue. For the corresponding periods, sales to our five largest customers in aggregate accounted for 52.3%, 50.0%, 46.0% and 54.3%, respectively, of our total revenue. The following tables set forth certain basic information of our five largest customers as of the periods indicated.

For the year ended December 31, 2014				
	% of total sales	Type of services provided	Year when business relationship was first established	Business scope of the customer
Customer A	18.3	EPC	2014	Electricity generation (special license required if applicable); supply of industrial steam; manufacturing and sales of aluminum products; supply of heat.
Customer B	12.4	EPC, O&M	2007	Generation and sales of electricity, construction and operation of Yangcheng Power Plant, and integrated utilization relating to electricity generation; supply (or sales) of heat.
Customer C	8.9	BOT	2008	Construction, operate and management of power plants under engagements.
Customer D	6.4	EPC	2006	Owning and operating two coal-fired electricity generating facilities with capacity of 1,230 MW, generation and sales of electricity, providing production and services relating to electricity.
Customer E	6.3	EPC	2013	Owning and operating of power plants, generation and sales of electricity, and providing production and services relating to electricity; warehousing; supply and sales of hear; construction and operation of new energy projects (applicable only to branches).
Total	<u>52.3</u>			

BUSINESS

For the year ended December 31, 2015

	<u>% of total sales</u>	<u>Type of services provided</u>	<u>Year when business relationship was first established</u>	<u>Business scope of the customer</u>
Customer F	12.4	EPC	2007	Dispatching labor overseas (excluding seamen, valid till November 3, 2017); imports and exports; overseas construction contracting and agency services for bidding invitations; hosting international economic and technology exhibitions within the PRC; international trade consulting, advertisement, exhibition of goods; technical consulting and services relating to the foregoing matters; sales of mechanical equipment, electronic equipment and devises, meters, wrapping materials, construction materials. (As licensed, if applicable.)
Customer G	10.7	EPC	2015	Generation of electricity within the licensed scope (within the validity period of the license); sales of natural gas (only applicable to branches); development, production, processing and sales of forged products, graphite and carbon products; proprietary imports and exports, processing of imported materials, manufacturing based on imported specimen, assembling of imported parts, and compensation trades; renovation and decoration, installation of aluminum alloy structural products, doors and windows (as licensed); designing and manufacturing of molds; sales of gas stoves, metal materials and mechanical equipment; research, development and technical consulting and services relating to pressure manufacturing engineering and technologies for aluminum alloy; testing and examinations.
Customer H	10.4	BOT	2012	Supply of electricity; production and sales of electric power products and thermal power products; the development and sales of fuels, materials, electricity related technologies and electric materials and supplies; maintenance of power generating facilities; installation, design and construction of electricity related projects (excluding ground constructions); processing and maintenance of mining machinery and electrics; interior and exterior refurbishment; maintenance of heating equipment; equipment cleaning;

BUSINESS

For the year ended December 31, 2015

	<u>% of total sales</u>	<u>Type of services provided</u>	<u>Year when business relationship was first established</u>	<u>Business scope of the customer</u>
				electronic information consulting and technical services; designing, testing and experiment of electricity system equipment and related projects, and related technological development, consulting and services; environmental monitoring (for branches only)
Customer I	8.3	EPC	2013	Generation of electricity; construction, operation and management of electricity generation projects; maintenance of electricity equipment; consulting services and training relating to electricity technologies; production and supply of heat; sales of fly ash; production and sales of plaster.
Customer C	8.2	BOT	2008	Construction, operate and management of power plants under engagements.
Total	<u>50.0</u>			

For the year ended December 31, 2016

	<u>% of total sales</u>	<u>Type of services provided</u>	<u>Year when business relationship was first established</u>	<u>Business scope of the customer</u>
Customer J	9.8	EPC	2015	Trades in aluminum ore (bauxite); production and sales of aluminum pigs, plates, foils, stripes and products.
Customer C	9.4	BOT	2008	Construction, operate and management of power plants under engagements.
Customer G	9.3	EPC	2015	Generation of electricity within the licensed scope (within the validity period of the license); sales of natural gas (only applicable to branches); development, production, processing and sales of forged products, graphite and carbon products; proprietary imports and exports, processing of imported materials, manufacturing based on imported specimen, assembling of imported parts, and compensation trades; renovation and decoration, installation of aluminum alloy structural products, doors and windows (as licensed); designing and manufacturing of molds; sales of gas stoves, metal materials and mechanical equipment; research, development and technical consulting and services relating to pressure manufacturing engineering and technologies for aluminum alloy; testing and examinations.

BUSINESS

For the year ended December 31, 2016

	% of total sales	Type of services provided	Year when business relationship was first established	Business scope of the customer
Customer K	8.8	EPC, O&M	2014	Construction and operation of power plants; electricity generation; sales of electricity and coal.
Customer L	8.7	BOT	2015	Electricity generation (as licensed, if applicable).
Total	<u>46.0</u>			

For the nine months ended September 30, 2017

	% of total sales	Type of services provided	Year when business relationship was first established	Business scope of the customer
Customer M	17.7	O&M	2016	Coal-fired electricity generation; investment in and construction of electricity facilities; operation and management of electricity generation enterprises; sales of side products of electricity generation; imports and exports of goods; imports and exports of technologies; sales of electricity and production of steam and compressed air; information consulting services relating to human resources; maintenance of power plant equipment; weighing and measuring services.
Customer C	16.1	BOT	2008	Construction, operation and management of power plants under engagements.
Customer N	7.9	EPC	2017	Crude oil processing; oil products; chemical products; synthetic fibers and monomers; plastics and plastic products; textile raw materials and textile products; import and export of goods or technology; production and recycle of catalyst; supply of electricity, heat, water and gas; water processing, railway loading and unloading; inner-river transportation; wharf operations; warehousing; design, research and development; development and transfer of technologies and related technology consulting and services; property management; proprietary property leasing; inner-system staff training; designing and production of advertisement; advertising through self-media; technology services relating to quality testing.

BUSINESS

For the nine months ended September 30, 2017

	% of total sales	Type of services provided	Year when business relationship was first established	Business scope of the customer
Customer O	7.1	EPC, O&M	2007	Construction and operation of power plants; electricity generation; sales of electricity and coal.
Customer H	5.5	BOT	2012	Supply of electricity; production and sales of electric power products and thermal power products; the development and sales of fuels, materials, electricity related technologies and electric materials and supplies; maintenance of power generating facilities; installation, design and construction of electricity related projects (excluding ground constructions); processing and maintenance of mining machinery and electrics; interior and exterior refurbishment; maintenance of heating equipment; equipment cleaning; electronic information consulting and technical services; designing, testing and experiment of electricity system equipment and related projects, and related technological development, consulting and services; environmental monitoring (for branches only)
Total	<u><u>54.3</u></u>			

For details of risk associated with concentration of customers, please see the section headed “Risk Factors—Risks Relating to Our Businesses and Industry—A significant portion of our revenue is derived from our major customers and changes in their business or requirements may have a material and adverse effect on our business.” in this prospectus.

Our concession operation and O&M customers provide us with primarily electricity and water required for the operation of our BOT and O&M projects. Other than the supply of utilities, none of the above disclosed major customers was, during the Track Record Period, also one of our suppliers. None of our Directors, their associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital had any interest in any of these five largest customers during the Track Record Period, except that Customer M is a connected person.

SUPPLIERS, SUBCONTRACTORS AND INVENTORIES

We procure and source various raw materials, equipment and construction services for the operation and construction of our projects from our suppliers and third party subcontractors in the PRC.

BUSINESS

Suppliers

Supplies purchased for our flue gas treatment business mainly include flue gas treatment equipment and materials, steel products and nonferrous metal materials and anti-corrosive material, as well as utilities used for the operation of flue gas treatment facilities. We generally have a diverse supplier base, and have long-term cooperation relationships with the majority of our suppliers. We have implemented a supplier certification system and qualified supplier access system to select suppliers according to their qualification and strengths and to centralize purchasing from the certified suppliers which ensures a stable supply of quality equipment while controlling cost. We believe that our supply arrangements are adequate and that there are no material constraints on the availability of the raw materials, components and equipment necessary for each segment of our business. We have also taken various measures to mitigate the impact on our operating costs as a result of the fluctuation in the prices of raw materials and equipment, including the reasonable adjustment of the stock according to the market condition and the actual progress of the project. When the prices of raw materials and equipment rise, we generally pass over the corresponding costs by renegotiating and amending the contract terms with suppliers and customers. We have not in the past been adversely affected by an inability to obtain raw materials, components or equipment. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, purchases from our five largest suppliers accounted for approximately 29.0%, 22.3%, 17.4% and 36.1%, respectively, of our total purchases, while purchases from our largest supplier accounted for approximately 9.0%, 5.7%, 6.2% and 13.9%, respectively, of our total purchases.

The tables below set forth the Group's top five suppliers for the periods indicated.

For the year ended December 31, 2014				
	% of total purchases	Products or services sourced	Year when business relationship was first established	Business scope of the supplier
Supplier A	9.0	WESP, catalyzer	2014	Research and development, production and sales of new materials for SCR environmental protection; research and development and sales of environmental protection equipment
Supplier B	7.4	Hydropower	2008	Construction, operation and management of power plants under engagements.
Supplier C	4.5	Economizer transformation and low nitrogen combustion transformation	2014	Sales and installation of electric power production equipment, power engineering construction, power engineering contracting, development and technology transfer of its computer software, provision of relevant technical advice and technical services
Supplier D	4.2	Catalyzer and smoke cooler	2012	Sales and production of plate catalyst
Supplier E	4.0	Steel structure fabrication	2013	Steel structure fabrication
Total	<u>29.1</u>			

BUSINESS

As of December 31, 2015				
	<u>% of total purchases</u>	<u>Products or services sourced</u>	<u>Year when business relationship was first established</u>	<u>Business scope of the supplier</u>
Supplier B	5.7	Hydropower	2008	Construction, operation and management of power plants under engagements
Supplier F	5.6	Circulating pump, small slurry	2003	Circulating pump, small slurry, special industrial pump
Supplier G	3.9	Blower	2011	Efficient centrifugal air compressors, centrifugal steam compressors, carbon dioxide compressors, refrigeration compressors, single-stage high-speed centrifugal blowers, new high-efficiency steam turbines, multi-stage high pressure centrifugal blowers, large industrial blowers and other energy-saving fluid machinery products
Supplier A	3.7	WESP, catalyzer	2014	Research and development, production and sales of new materials for SCR environmental protection; research and development and sales of environmental protection equipment
Supplier C	3.5	Economizer transformation and low nitrogen combustion transformation	2014	Sales and installation of electric power production equipment, power engineering construction, power engineering contracting, development and technology transfer of its computer software, provision of relevant technical advice and technical services
Total	<u><u>22.4</u></u>			

BUSINESS

For the year ended December 31, 2016				
	% of total purchases	Products or services sourced	Year when business relationship was first established	Business scope of the supplier
Supplier B	6.2	Hydropower	2008	Construction, operation and management of power plants under engagements.
Supplier H	2.9	Limestone, plaster disposal fee	2016	Comprehensive utilization of fly ash, general road transportation, limestone
Supplier I	2.9	Titanium steel composite board	2016	Development, production and sales of metal materials, metal composites and deep-processing products
Supplier J	2.8	Limestone	2014	Manufacturing of fly ash brick, wholesale and retail of building materials (excluding wood and paint), steel and fly ash
Supplier F	2.6	Circulating pump, small slurry pump	2003	Specialized industrial pumps
Total	<u>17.4</u>			

For the nine months ended September 30, 2017				
	% of total purchases	Products or services sourced	Year when business relationship was first established	Business scope of the supplier
Supplier K	13.9	Water, electricity, labor and property management	2017	Electricity
Supplier H	7.9	Limestone, processing of plaster	2016	Comprehensive utilization of fly ash, general road transportation, limestone.
Supplier B	7.3	Hydropower	2008	Construction, operation and management of power plants under engagements.
Supplier F	3.8	Circulating pump, small slurry pump	2003	Specialized industrial pumps.
Supplier L	<u>3.2</u>	Electricity	2016	Electricity
Total	<u>36.1</u>			

To the best of our knowledge, none of our Directors or their respective associates or any Shareholder who, to our knowledge, holds more than 5% of our issued Shares, had any interest in any of our five largest suppliers during the Track Record Period, except that Supplier L is a connected person.

Subcontractors and Sub-contracting Arrangements

In light of the professional nature of construction work, to achieve efficiency and cost saving, we generally engage construction and installation service providers to undertake the construction of our EPC and concession projects. We typically select such service providers as our subcontractors of

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the relevant projects through a bidding process. We endeavor to engage qualified and reputable subcontractors based on the qualification requirements for suppliers and the cooperation agreements, in accordance with the applicable laws and regulations on bidding. We conduct due diligence on potential subcontractors before we engage them. We generally consider factors such as their track records, technical qualifications and certification. We normally select subcontractors based on the location and technical requirements of our projects.

Generally, our sub-contracting agreements require our subcontractors to supply basic construction materials, including steel and cement, and to bear the risk of any increase in raw material prices. Under our typical arrangements with subcontractors, we make progress payments to them at various stages of project completion and include a construction schedule based on the construction schedule set out in the master EPC or concession agreement with our customer. The subcontractors provide warranties in respect of the quality and timely completion of their work scope in their construction contracts. In the event of any delay or poor quality of work, the subcontractors is required to repair the defects and may be required to pay damages to us under the relevant construction contract. In addition, we are typically entitled to terminate the contract with the subcontractor for non-performance of its obligations. For the year ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, our subcontracting costs amounted to RMB144 million, RMB142 million, RMB194 million, and RMB85 million, respectively, representing approximately 22.4%, 24.5%, 31.5% and 25.9% of our total cost of sales and services, respectively. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, purchases from our five largest subcontractors accounted for approximately 41.7%, 49.1%, 55.4% and 57.0%, respectively, of our total subcontracting costs, while subcontracting costs relating to our largest subcontractor accounted for approximately 12.8%, 14.3%, 22.6% and 26.3%, respectively, of our total subcontracting costs. During the Track Record Period, all of our subcontractors for construction and installation work were independent third parties.

The tables below set forth the Group's top five subcontractors for the periods indicated.

For the year ended December 31, 2014				
	% of total subcontracting costs	Services sourced	Year when business relationship was first established	Business scope of the subcontractor
Subcontractor A . .	12.8	Installation of desulfurization equipment	2011	Construction and installation
Subcontractor B . .	11.2	Installation of desulfurization equipment	2014	Construction and installation
Subcontractor C . .	6.8	Installation of desulfurization equipment	2013	Construction and installation
Subcontractor D . .	5.9	Installation of desulfurization equipment	2014	Construction and installation
Subcontractor E . . .	5.0	Installation of desulfurization equipment	2013	Construction and installation
Total	<u>41.7</u>			

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For the year ended December 31, 2015

	<u>% of total subcontracting costs</u>	<u>Services sourced</u>	<u>Year when business relationship was first established</u>	<u>Business scope of the subcontractors</u>
Subcontractor F . . .	14.3	Installation of desulfurization equipment	2014	Construction and installation
Subcontractor B . .	9.7	Installation of desulfurization equipment	2014	Construction and installation
Subcontractor G . .	8.8	Installation of desulfurization equipment	2014	Construction and installation
Subcontractor C . .	8.2	Installation of desulfurization equipment	2013	Construction and installation
Subcontractor A . .	8.2	Installation of desulfurization equipment	2011	Construction and installation
Total	<u>49.2</u>			

For the year ended December 31, 2016

	<u>% of total subcontracting costs</u>	<u>Services sourced</u>	<u>Year when business relationship was first established</u>	<u>Business scope of the subcontractor</u>
Subcontractor C . .	22.6	Installation of desulfurization equipment	2013	Construction and installation
Subcontractor E . . .	10.8	Installation of desulfurization equipment	2015	Construction and installation
Subcontractor H . .	10.7	Installation of desulfurization equipment	2014	Construction and installation
Subcontractor I . . .	6.7	Installation of desulfurization equipment	2013	Construction and installation
Subcontractor G . .	4.6	Installation of desulfurization equipment	2014	Construction and installation
Total	<u>55.4</u>			

For the nine months ended September 30, 2017

	<u>% of total subcontracting costs</u>	<u>Services or services sourced</u>	<u>Year when business relationship was first established</u>	<u>Business scope of the subcontractor</u>
Subcontractor H . .	26.3	Installation of desulfurization equipment	2014	Construction and installation
Subcontractor E . . .	10.7	Ground constructions of desulfurization facilities	2013	Construction and installation
Subcontractor J . . .	8.9	Ground constructions and installation of desulfurization facilities	2017	Construction and installation
Subcontractor K . .	5.7	Design and manufacturing of steel structures	2017	Designing and manufacturing of steel structures
Subcontractor L . . .	5.3	Installation of desulfurization facilities	2015	Construction and installation
Total	<u>56.9</u>			

To the best of our knowledge, none of our Directors or their respective associates or any Shareholder who, to our knowledge, holds more than 5% of our issued Shares, had any interest in any of our five largest subcontractors during the Track Record Period.

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Inventories

Inventories primarily comprise raw materials procured from our suppliers. Through effective inventory management, we maintain the lowest inventory level required for our operations. The balances of our inventories account for a relatively small portion of our current assets and the inventory turnover ratio is relatively high. As at December 31, 2014, 2015 and 2016 and September 30, 2017, our inventories were approximately RMB53 million, RMB31 million, RMB22 million and RMB36 million respectively. For details, please see the section headed “Financial Information—Liquidity and Capital Resources—Net Current Assets—Inventories” in this Prospectus.

COMPETITION

We compete with domestic flue gas treatment services providers in the power industry as well as other Chinese environmental protection services providers. Competition largely focuses on advancement of technology, price of services, quality and variety of services provided, financial capacity, and creditworthiness.

With respect to the flue-gas treatment market in the power industry in the PRC, we have maintained, and expect to continue to maintain, a leading position, particularly in respect of our desulfurization and denitrification services. We face competition, in the environmental protection industry, primarily from domestic competitors such as Beijing Guodian Longyuan Environmental Engineering Co., Ltd. (北京國電龍源環保工程有限公司), Datang Environmental Industry Group Co., Ltd. (大唐環境產業集團股份有限公司), Beijing SPC Environment Protection Tech. Co., Ltd. (北京清新環境技術股份有限公司) and other flue gas treatment services companies under state-owned power companies and other leading independent flue gas treatment service companies in the PRC.

RESEARCH AND DEVELOPMENT

Overview

We have strong and independent R&D capability and adhere to the R&D strategy in pursuit of advanced technology. We are committed to independent R&D and we adhere to the approach of technology development and application through introduction, digestion, study and re-creation as well as industry-academia research. We have formed two value chain consists of environmental protection energy-saving engineering and technology R&D service. Based on technique improvement and advanced technology, our industrial system has been gradually formed.

Our R&D team possesses considerable relevant industry experience and has established a well-structured technology development platform. Since our inception, we have been committed to developing new technologies and products, upgrading or improving existing technologies, meeting the changing market requirements and introducing advanced technologies into China. With our breadth of relevant industry experience, a deep understanding of power plants’ needs in China, and through our continued innovation and improvement of advanced technologies, we have accomplished significant achievements in R&D. As a result, we believe our products, services and technologies will enable us to maintain a leading position in the flue gas treatment industry in the PRC.

Our market reputation in the flue gas treatment business is built on our continued efforts to help our customers comply with regulated pollution control requirements and increase their operational and economic efficiency. In providing our flue gas treatment services, we employ various industry-leading technologies and we also store waste water treatment technology, soil treatment and energy-saving and integrated utilization technology.

In 2014, 2015 and 2016 and nine months ended September 30, 2017, our R&D expenses amounted to RMB1.8 million, RMB5.5 million, RMB3.9 million and RMB4.7 million, respectively. In addition, we have also invested a considerable amount of resources in the establishment and expansion of our enterprise technology center and multiple experimental bases. Furthermore, we have gained a significant amount of know-how in our rich experience in successfully implementing various types of projects.

Structure of Our R&D Network

We are committed to the promotion of the efficiency, coordination, energy-saving and upgrade of the “Green Island” flue gas treatment technology to meet emission standard. We also intend to extend the industry chain of flue gas treatment industry, establish technology integration platform, realize super-low energy consumption and full-scope energy saving. We established our technology expert committee comprised of internal and external experts in 2009 and we established enterprise technology center and post-doctorate science & research work station. We have also established Jingtangshan physical model experiment R&D center and sea water desulfurization experiment center and also Yangcheng operating simulator experimentation base. Each R&D centers and experiment base are staffed with specialized teams to carry out studies on specific technical topics, and report directly to R&D department at our headquarters in Beijing. Our R&D mainly focus on simultaneous multi-pollutants removal technology of “Green Island” flue gas treatment, integrated desulfurization and denitrification technology, waste water zero discharge, soil disposal and low-low temperature dust removal technology.

We have a professional R&D team in place. As of September 30, 2017, our R&D team consisted of 76 employees. All our core R&D personnel have obtained “senior engineer” qualifications, and have extensive experience in the flue gas treatment industry for over 20 years.

During the Track Record Period, we have commissioned two universities in China and other scientific research institutions for technology R&D, including: commissioning Tsinghua University to develop “Key Technology for Selective Catalytic Reduction (SCR) Flue Gas Denitrification” and commissioning Hebei University of Technology to carry out the research for “the principal for influence by temperature, pH value and salinity to the ionization equilibrium constants of three substances of CO₂, SO₂ and SO₃”. We have also commissioned Nrgtek Inc., an American technology company in the field of water treatment, emission controls and green energy, to develop a new form of flue gas treatment system, which may replace the widely used SCR flue gas denitrification system. We have entered into a Joint Technology Licensing Cooperation Framework Agreement with Fushun Research Institute of Petroleum and Petrochemicals, under which both parties have agreed to mutually license each other with patents and technologies on flue gas desulfurization, denitrification and dust removal, which are to be applied in the “ultra-low emission” projects for industrial boilers in petroleum and petrochemicals, oil fields, electricity and coal chemical industries. In addition, we have also established a post-doctor research station in cooperation with Nankai University.

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Typical contractual arrangements for research cooperation with universities or research institutions generally include the following major terms:

<u>Major Terms</u>	<u>Details</u>
Technical indicators and parameters to be achieved	Universities or research institutions shall ensure that the R&D results satisfy the specified technical indicators and parameters as stipulated in the agreements.
Funds and remunerations of the R&D and other payments or settlement methods	We shall pay the funds and remunerations for the R&D to the universities or research institutions in accordance with the stipulated method in the agreements. Funds of the research and development means the costs necessary for the R&D work , remunerations means the fees for using the achievements of the development project and subsidies to the developers. We usually provide payment by installment.
Investment amount	Our investment in the R&D projects with Tsinghua University and Hebei University of Technology were RMB780,000 and RMB700,000, respectively. Our investment in the R&D project with Nrgtek Inc. was USD568,284.
Confidentiality	Both parties undertake confidentiality obligation for the technical intelligence and information provided by another party.
Entitlement to technological achievements	Both parties shall be jointly entitled to the rights to patent application, rights to transfer, rights of use, rights of signature, rights of honor and rights to award application of the technological achievements resulted from the research and development.
Methods of acceptance	The universities or research institutions shall submit to us with the research reports and we will provide certificates of acceptance of the project once we received the reports. We shall bear all expenses incurred in the acceptance.

Participation in Developing National Standards

During the Track Record Period, we involved in drafting national environmental protection and energy conservation standards. We have been involved in many science and technology research and development programs, including: “Development and Application of Flue Gas Desulfurization Technology for High Sulphur Oil-fired Boiler”, an own independent innovative special project of high-growth enterprises in Beijing, “Industrial Flue Gas Desulfurization Tower”, a high-tech achievement

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transformation project, “High Efficiency SCR Flue Gas Denitrification Unit Conversion Project”, a high-tech achievement transformation project in Beijing, “Flue Gas Denitrification Improvement Project of Menghua Haibowan Power Plant”, a special project promoting technology service industry in Beijing in 2015, “R&D and Industrialization of Key Technology and Equipment regarding Selective Catalytic Reduction (SCR) Flue Gas Denitrification”, a management project of Zhongguancun major technology achievement transformation and industrial development, and “Coal-fired Units Green Island (Integration of Desulfurization, Denitrification and Dust Removal) Application Demonstration Project”, a major application demonstration project of industrial technology alliance in Zhongguancun Demonstration Zone in 2014.

We are actively preparing to expand our technologies into other areas within the environmental protection industry. We undertook ten research projects in the area of air pollution treatment. The objectives of these research projects are (i) to achieve technology upgrades through research on relevant fields; including high efficiency WFGD technology, high efficiency SCR flue gas denitrification technology, advanced high efficiency dust removal technology; (ii) to increase our service quality and reduce operational costs; (iii) to carry out large-scale research and eventually achieve the industrial application of flue gas treatment technology.

INTELLECTUAL PROPERTY

Intellectual property rights are essential to our business. As of the Latest Practicable Date, we own 33 registered trademarks, 49 patents and six computer software copyrights in the PRC, and own 2 patents outside the PRC. We are currently applying for six patents and will continue to apply for new patent rights in the PRC for the products and technologies we develop. Further, we own other intellectual property such as non-registered know-how, trade secrets, proprietary technologies and other procedures and processes.

To protect our intellectual property rights, we normally include confidentiality clauses in contracts with our customers and suppliers to protect our trade secrets; and we sign trade secret protection agreements with employees.

More information about our intellectual property rights (including pending patents and trademarks) is set out in the appendix entitled Appendix V—“Statutory and General Information—B. Future Information About our Business—2. Intellectual property rights of our Group” to this prospectus. As of the Latest Practicable Date, no lawsuit has been brought against us, nor have we initiated any lawsuit for intellectual property rights infringement.

SAFETY AND QUALITY CONTROL

Project construction

As of September 30, 2017, our safety and quality management team consisted of 85 professional engineers, who are responsible for overseeing the safety, quality, progress, functionality and the costs of the project as well as providing our senior management with timely updates on the project. We lead the bidding solicitation, appraising and selecting of equipments and the equipment suppliers and evaluating their work, as well as the manufacturing and delivery of the equipments. We also lead the bidding solicitation and evaluation of the work conducted by our subcontractors or our construction units. We specify technical requirement during the bidding process and the engineering design of and technology employed by subcontractors shall be approved by our professional engineers.

We have established sound and comprehensive safety and quality control system to guide the construction of project and we have also implemented long-term incentive control mechanism, including the establishment of a fund as bonus for excellent safety and quality practice. We also conduct internal examination over the construction work by our project companies. Our safety and quality control department will establish respective annual safety and quality working scheme according to the requirements from customers and companies, providing supervision and guidance of safety and quality work for each of our projects. We assign full-time and part-time management personnel being responsible for safety and quality of each project. Regular and irregular examinations and appraisals of safety and quality work will be arranged for projects under constructions and operation and maintenance, according to the annual examination scheme and quality index of companies.

During the construction implementation period, we have a dedicated project department that is directly responsible for the effective management of the relevant project. We adopt various measures to control the working process and quality of our subcontractors and suppliers to ensure its compliance with relevant regulations and the provisions of our sub-contracting agreement and terms of our procurement contract. (1) Legal and compliance management. We require our subcontractors and suppliers to comply with the law and rules relating to construction quality and safety standard in the PRC, as well as our own set of standards and requirements. (2) Management of technology quality. Subcontractors shall report to our dedicated project department for any design defect and defective products found in time and our project department will correct them together with supervisors, customers and design parties. (3) Management of materials quality. The place of origin, specification and technical parameters of the materials and equipments provided by suppliers shall satisfy with the design and meet the requirements stated in contracts. (4) Report and examination procedure of importing materials. All materials and equipments provided by suppliers shall be reported to our procurement department and project department for verification, and supervised and checked by project department and customers respectively. (5) Management of construction quality. All subcontractors shall deploy sufficient qualified on-site quality managers. Our professional engineers will control the quality of construction by our subcontractors. (6) Protection of finished and semi-finished products. Products finished with systematic function, which are approved after examination, will be protected by subcontractors with manual and technical measures during and after its construction.

Project Operation

Each of our major business departments is responsible for the duration, safety and quality control of our projects in operation under its respective supervision. Project management center is responsible for the preparation, coordination and management of overall project plan and onsite resources allocation; safety and quality control department is responsible for the safety and quality control of the relevant project, through organizing quality and safety check, coordination and providing solution; bidding solicitation management department is responsible for the bidding solicitation, negotiation and execution of the relevant contract, managing the implementation of the contract and payment arrangement; procurement department is responsible for the selection and appraisal of suppliers, managing suppliers, procurement and inspection of materials and equipment, and solving problems of procurement and quality of equipment; production technology department is responsible for coordination of relevant experts to eliminate material defects of the equipment, to provide guidance and to solve technical issues of projects under operation, organizing and implementing modulation of projects, arranging function testing of completed projects and appraisals of completed construction,

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arranging environmental examination of projects, and provision of training and after-sales technical services for customers.

PERFORMANCE GUARANTEE AND WARRANTY FROM SUBCONTRACTORS

Performance Guarantee

We are required to install equipment and construct facilities in according with the customer's specific requirements within an agreed timeline. Under normal circumstances, from time to time upon the request of customers, we are required to post a security deposit valued at no more than 10% of estimated total contract value or investment of the relevant EPC or concession operation project. If we are unable to fulfill our obligations, for example, our responsibilities during the construction phase of the project, as set forth under the relevant project contract, our customers reserve the right to retain our security deposit. Such security deposit will be returned to us in accordance with the refund schedule as agreed in our agreements.

Warranties from Third Party Contractors or Equipment Suppliers

Under the terms of the agreements with our third party subcontractors or equipment suppliers, we generally retain 5% to 10% of the total contract value until the expiry of the warranty period to cover potential expenses from quality defects. Under the construction contracts for our EPC or concession operation projects, the warranty period generally lasts for one year following the completion of construction or receipt of certificate of acceptance. Under our procurement contracts for major equipment, the warranty period generally lasts for one year from the issuance of preliminary inspection and acceptance certificate by customers within six months from the completion of the 168-hour testing operation of the unit or 24 months from the delivery of last batch of goods. In the case of serious quality defects requiring replacement or significant overhaul of the affected facilities or equipment, our contracts generally provide for a corresponding extension of the warranty period.

SAFETY AND ENVIRONMENTAL PROTECTION

Safety and Labor Protection

We have taken measures to ensure compliance with applicable national, local and foreign laws and regulations concerning workspace safety. We have full-time safety management personnel responsible for supervising workplace safety and occupational health, hygiene and safety, as well as performing internal safety checks during the production process to minimize accidents, injuries and occupational diseases. Our PRC legal advisor, Commerce & Finance Law Offices, has confirmed that, save as disclosed in this prospectus, we have satisfied applicable requirements established by relevant PRC laws and regulations regarding production safety in material respects during the Track Record Period.

In order to further strengthen workplace safety compliance policies, we plan to keep optimizing operational rules for employees, and dedicate more training resources to prevent mis-application of policies and practices in violation of relevant laws and regulations, and to prevent employees from violating our workplace safety policies and procedures. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material workplace or industrial accidents.

Environmental Protection

Our operations are currently subject to environmental laws and regulations relating to construction and operation of air and water emissions, hazardous substances and waste management.

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As the industries in which we operate are not a major source of environmental pollution, we believe that the impact of our operations on the environment is minor and we have taken necessary internal environmental protection measures. We did not experience any material environmental pollution accident during the Track Record Period and up to the Latest Practicable Date. We have adopted advanced technologies and equipment to prevent and minimize pollution and we have not experienced any material accident causing environmental pollution. Our PRC legal advisor, Commerce & Finance Law Offices, has confirmed that we were in compliance with relevant environmental protection rules and regulations in material respects during the Track Record Period, not subject to any material fines or administrative actions involving non-compliance with any relevant regulations.

We will also maintain strict compliance with applicable local laws and regulations concerning health, safety and the environment in respect of our overseas operations. Before deciding to carry out business in foreign jurisdictions, we take into account our ability to comply with local laws. We obtained the ISO14001: 2004 Environmental Management System Certification and the ISO9001:2008 Quality Management System Certification in 2013. We also obtained the OHSAS18001:2007 Occupational Health Safety Management System Certification in 2008.

EMPLOYEES

As of September 30, 2017, we had 1,390 full-time employees. The following table sets forth the number of full-time employees by function/department as of the date indicated:

	<u>As of September 30, 2017</u>	
	<u>Number of employees</u>	<u>% of total</u>
Production	1,205	86.7
R&D and technical	76	5.5
Sales and marketing	27	1.9
Finance and accounting	23	1.7
Internal audit	2	0.1
Legal and compliance	4	0.3
Information technology	4	0.3
Management	49	3.5
Total	<u>1,390</u>	<u>100.0%</u>

The following table sets forth the number of full-time employees by age as of the date indicated:

	<u>As of September 30, 2017</u>	
	<u>Number of employees</u>	<u>% of total</u>
Aged 20 - 40	1,018	73.2
Aged 41 - 50	258	18.6
Aged over 51	114	8.2
Total	<u>1,390</u>	<u>100.0%</u>

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The following table sets forth the total number of our employees by education level as of the date indicated:

	As of September 30, 2017	
	Number of employees	% of total
Master's and doctorate degree	47	3.4
Bachelor's degree	248	17.8
Junior college education	509	36.6
Secondary and vocational school	318	22.9
Others	268	19.3
Total	<u>1,390</u>	<u>100.0%</u>

The remuneration package for our employees includes salaries, bonuses and allowances. Our employees are entitled to a variety of benefits, including medical care, housing subsidies, retirement and other benefits. For the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, our total staff costs were approximately RMB76 million, RMB100 million, RMB123 million and RMB96 million, respectively.

We provide management personnel and employees with on-the-job education, training and other opportunities to improve their skills and knowledge. We sign individual employment agreements with our employees, covering, among other things, salaries, benefits, training, workplace safety and hygiene, confidentiality obligations relating to trade secrets and grounds for termination. We organize professional skill training for our employees on a regular basis. We have established a trade union. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any major labor dispute or other labor disturbances that have interfered with our operations, and our management team is in good relationship with our employees.

In accordance with the applicable PRC regulations, we have made contributions to the social insurance (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident fund for employees. Please see the section headed “—non-compliance” in this prospectus for details of certain non-compliance incidents of social insurance and housing provident fund of a small number of our domestic subsidiaries.

In addition to employees who have entered into employment contracts with us, we had also engaged two dispatched workers through third party human resources agencies as of September 30, 2017. These dispatched workers are not our employees and generally will not take important positions. They enter into labor contracts with third party human resources agencies. We pay fees related to dispatched workers to human resources agencies according to the employment agreements with those agencies, which will then pay salaries to dispatched workers and pay social insurance charges to relevant government agencies.

INSURANCE

We have purchased insurance coverage for our main products, certain real properties, machinery and equipment, automobiles and other assets owned, operated or deemed important to us. The main kinds of insurance policies we have purchased and maintained include property all risks insurance, machinery breakdown insurance, all risks construction insurance, public liability insurance and accidental pollution liability insurance.

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In accordance with industry practices in China and our own experience in operating our business, the Directors believe that we have purchased sufficient insurance coverage. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any operational problems that may have a material adverse effect on our financial condition, results of operation, reputation, business activities, or future prospects, such as equipment failure or failure to meet standards, improper equipment operation or industrial accidents, nor any business interruptions as a result of fire, power outages, software or hardware malfunctions, flood, computer viruses or other events beyond our control. For details, please see the section headed “Risk Factors—Risks relating to our businesses and industry—We are subject to the risk of product liability claims and in some cases may not have sufficient insurance coverage.” in this prospectus.

PROPERTIES

Owned Properties

As of the Latest Practicable Date, we owned or occupied 62 properties with an aggregate GFA of approximately 8,289 square meters, of which:

We have obtained the land use right certificates and building ownership certificates for the area of land occupied by 6 properties with an aggregate GFA of approximately 1,227 square meters, accounting for 14.8% of the aggregate GFA of our owned properties. As advised by our PRC legal advisor, Commerce & Finance Law Offices, as we have validly and legally obtained the relevant land use right certificates and building ownership certificates for 6 properties as mentioned above, we are the sole legal owner of the title and use rights of the aforesaid buildings, and have the right to occupy, use, transfer, lend, pledge or otherwise deal with those buildings and land according to the description of the right certificates and building ownership certificates and the requirement of the PRC law.

We have obtained the real estate ownership certificates for 56 properties with an aggregate GFA of approximately 7,062 square meters accounting for 85.2% of the aggregate GFA of our owned properties. As advised by our PRC legal advisor, Commerce & Finance Law Offices, as we have validly obtained the relevant land use right certificates and building ownership certificates for 56 properties as mentioned above, we are the sole legal owner of the title and use rights of the aforesaid 56 buildings, and have the right to occupy, use, transfer, lend, pledge or otherwise deal with those buildings and land according to the description of the real estate ownership certificates and the requirement of the PRC law.

Leased Properties

As of the Latest Practicable Date, we leased 11 properties with an aggregate GFA of approximately 4,525 square meters, which we mainly use as business premises.

We failed to conduct the filing and registration formalities for the 11 leased properties as mentioned above. Our PRC legal advisor, Commerce & Finance Law Offices, is of the view that we can be deemed as the legitimate tenant based on relevant judicial interpretations when the lessor enters into two or more lease agreements with respect to the same property. According to the relevant judicial interpretations, failure to register the lease agreements will not affect the validity of such lease agreements but we may be subject to penalties imposed by the relevant PRC authorities. Pursuant to the Administrative Measures on Leasing of Commercial Housing (《商品房屋租賃管理辦法》), for the unregistered leased properties, the competent authorities have authority to demand filing and

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registration on the lease agreements within the specified time periods. Moreover, the tenants may be subject to a fine between RMB1,000 and RMB10,000 under each of such lease properties for failure in filing and registration of the relevant lease agreement within such prescribed period. As of Latest Practicable Date, we were not subject to any penalties imposed by the relevant housing administrative authorities for non-registration of lease agreements. Our Directors believe that if the title defects to any such properties or the non-registration of the lease agreements prevents us from continuing to lease any such properties and, therefore, our relevant companies need to be relocated, we can relocate our companies to comparable alternative premises in the relevant locations without any material adverse effect on our business and financial condition.

NON-COMPLIANCE

Save as disclosed in this prospectus, during the Track Record Period and up to the Latest Practicable Date, we have complied with all applicable PRC laws and regulations in material aspects.

As of the Latest Practicable Date, we leased 11 properties in aggregate but we failed to conduct the filing and registration formalities for the 11 leased properties as mentioned above. For details, please see the section headed “—Properties—Leased Properties” in this prospectus.

In addition, our several domestic subsidiaries had certain non-compliance incidents related to social insurance and housing provident fund.

Issues	Reasons for the non-compliance	Legal consequences	Remedies and rectification measures taken
<p>We failed to pay social insurance and housing provident fund contributions in full for employees of certain domestic subsidiaries under the PRC laws.</p>	<p>The non-compliance was mainly due to the relevant staffs of those domestic subsidiaries were not familiar with the relevant regulatory requirements and some local authorities failed to implement the relevant regulations consistently in China.</p>	<p>Our PRC legal advisor, Commerce & Finance Law Offices, has confirmed that, if any competent government authority is of the view that the social insurance payments we made for our employees do not satisfy the requirements under relevant PRC laws and regulations, we may be ordered to pay or make up the payment within the stipulated period by the relevant competent government authorities and may impose a fine equivalent to 0.05% of the overdue payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, we may be imposed a fine from one to three times the amount of the overdue payment. Meanwhile, if any competent government authorities are of the view that the housing provident fund we made for our employees do not satisfy the requirements under relevant PRC laws and regulations, we may be ordered to pay up the prescribed time limit. If the payment and deposit is not made within the stipulated period, competent authorities of the housing provident fund will petition to the people's court for enforcement of the unpaid amount.</p> <p>As such, our underpaid amount of social insurance and housing provident fund contributions is estimated to be RMB29.8 million.</p>	<p>We have obtained the compliance certificate issued by the relevant competent authority, confirming such companies have no default in payment and are not subject to administrative penalties.</p> <p>Since July 2016, our domestic subsidiaries have paid social insurance and housing provident fund contributions for all employees in full according to the payment base provided by laws and regulations.</p> <p>Our ultimate controlling Shareholders have undertaken that they will unconditionally bear the relevant payments when the such domestic subsidiaries are ordered to make retroactive contributions to the housing provident fund or imposed penalties for such non-compliance incidents.</p>
		<p>Our PRC legal advisor, Commerce & Finance Law Offices, advises that, apart from relevant conditions disclosed in this prospectus, our domestic subsidiaries have obtained the compliance certificate issued by the relevant competent authority, however, such certificate is not enough to fully prove whether such companies have made contributions to the social insurance and housing provident fund in full according to the payment base stipulated by laws and regulations since their dates of establishments. However, considering (1) relevant competent authority has issued compliance certificate that</p>	

Issues	Reasons for the non-compliance	Legal consequences	Remedies and rectification measures taken
			<p>confirming such companies have no default in payment and are not subject to administrative penalties; (2) such domestic subsidiaries has made written confirmation that, as at the date of issuance of such certificate, they have not been subject to any forms of penalties from relevant competent authority, and since July 2016, they have made contributions to the social insurance and housing provident fund for all employees in full according to the payment base provided by laws and regulations; (3) our Ultimate Controlling Shareholders have undertaken that they will unconditionally bear the relevant payments when the such domestic subsidiaries are ordered to make retroactive contributions to the housing provident fund or being punished due to such non-compliance incidents, our PRC legal advisor, Commerce & Finance Law Offices, advised us that, as of the date of the issuance of each relevant compliance certificate, the likelihood that (i) penalties (including restitution of the underpayments, fines for underpayment, or other penalties) be imposed against such domestic subsidiaries by the competent authorities for such non-compliance in making contributions to social insurance and housing provident fund, and (ii) such penalties, if imposed, have a significant impact on the business operations of these companies, is remote.</p> <p>As such, we are of the a view that there is no need to make provision for the full contributions to the</p>

Issues	Reasons for the non-compliance	Legal consequences	Remedies and rectification measures taken
	<p>As of June 2016, the non-compliance was mainly due to that the relevant staff of those domestic subsidiaries were not familiar with the relevant regulatory requirements and some employees are reluctant to make their own contribution to their housing fund according to their actual wages, resulting in our failure to complete the personal account opening formalities of housing provident funds for them and make contributions.</p>	<p>Our PRC legal advisor, Commerce & Finance Law Offices, has confirmed that, pursuant to the requirements of PRC laws and regulations, we may be ordered to make rectification within the stipulated period by the competent authorities of the social insurance and housing provident fund as a result of failing to go through the formalities for social insurance registration or the account opening formalities of housing provident funds timely. If we failed to do so at the expiration of the time limit, a fine of not less than RMB10,000 but no more than RMB50,000 may be imposed. Meanwhile, if any competent government authorities are of the view that the housing provident fund contributions we do not satisfy the requirements under relevant PRC laws and regulations, we may be ordered to pay up in the prescribed time limit. If the payment and deposit is not made within the stipulated period, competent housing provident fund authorities will petition to the people's court for enforcement of the unpaid funds for them and amount.</p>	<p>social insurance and housing provident fund of relevant subsidiaries.</p> <p>Since July 2016, we have completed account opening formalities of housing provident funds for our domestic subsidiaries and pay housing provident fund contributions for all employees in full according to laws</p> <p>We have also obtained the compliance certificate issued by the relevant competent authority, confirming that since July 2016 to the date of issuance of such certificates, such domestic subsidiaries have made housing provident fund contributions in full and are not subject to penalties for violations of Chinese law relating to housing provident funds.</p> <p>In addition, we have made provisions of RMB0.9 million for relevant non-compliance relating to housing provident fund contributions before July 2016 of these three domestic subsidiaries, which we believe is sufficient to cover such unpaid housing provident fund contributions of such domestic subsidiaries. In addition, our Ultimate Controlling Shareholders have undertaken that they will unconditionally bear the relevant payments when the such domestic subsidiaries are ordered to make retroactive contributions to the housing provident fund or imposed penalties for such non-compliance.</p>

INTERNAL CONTROL AND RISK MANAGEMENT

Our Operation Planning Department is responsible for internal control and risk management of our business operation and we have implemented internal control management policy within our Group.

In order to limit our exposure to the fluctuation of raw materials and equipment prices and subcontracting fees for our environmental protection facility engineering and concession operation projects, we have taken the following measures:

- budgeting engineering and procurement costs and expenses strictly in accordance with the specific needs of each project;
- entering into fixed price long-term agreements with raw materials and equipment suppliers from time to time;
- selecting equipment in strict compliance with the technical requirements of the facility design;
- selecting suitable subcontractors for construction during the tendering process; and
- keeping management fees and payroll costs of a project under control through stringent control of staff number.

As a result of our strict pricing policy and risk management measures, the impact of fluctuating raw materials and equipment and sub-contracting fees on our gross profit margins have been low during the Track Record Period.

To avoid costs overruns in the construction of our projects, we have taken the following measures:

- selecting projects carefully and not accepting any project that we believe will not offer adequate profitability to cover the risks involved; and
- estimating costs at various stages prior to signing of agreements with customers, based on our experience in constructing the relevant projects, and analyzing cost trends.

We have also implemented various internal control and risk management policies, including Asset Depreciation Provision Management Policy, Inventory Management Policy and Financing and Guarantee Management Policy. Furthermore, we also sponsor our internal control staff to attend risk management and internal control related trainings every year.

To rectify our failure to conduct the filing and registration formalities for certain lease agreements as disclosed in the section headed “—Properties—Leased Properties” in this prospectus, we have taken the following internal control measures:

- When selecting new leased properties, we give priority to the properties in respect of which the filing and registration formalities have been completed; and
- We monitor and request the lessors of our leased properties to complete the filing and registration formalities in respect of the lease agreements.

To rectify non-compliance incidents of social insurance and housing provident fund of our certain domestic subsidiaries, we have taken the remediation and rectification measures as disclosed in

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the section headed “—non-compliance—Remedies and rectification measures taken” in this prospectus. To prevent future non-compliance in this aspect, we have taken the following internal control measures:

- We have strengthened our internal policies and procedures for human resources management in respect of social insurance and housing provident fund, and we require our subsidiaries to strictly implement these policies and procedures;
- We provide regular training to our staff members who are in charge of, or handle, social insurance and housing provident fund matters, as well as our employees on the relevant government policies and requirements; and
- Our internal control department conducts examinations, on a semi-annual basis, on our subsidiaries’ payment of social insurance and housing provident fund, and reminds and monitors our human resources department to promptly open accounts for social insurance and housing provident fund for our newly established subsidiaries and make full payments to the social insurance and housing provident fund for new employees in a timely manner.

Our senior management monitors compliance with risk management policies and procedures on an ongoing basis. We believe that our effective employment of risk control strategies described above has minimized our risk exposure; however, the shifting of the risks associated with the construction of production facilities, such as delays and cost overruns, from our customers to us is inherent in the nature of our environmental protection facility engineering and concession operation business models. During the Track Record Period, we have experienced certain cases of cost overruns and delays in the progress of our project. Our Directors are of the view that none of such incidents have caused or will have any material adverse effect on our business, results of operations and financial condition.

Having considered the facts and circumstances leading to the non-compliance incidents in relation to the employee social insurance and housing provident fund and filing and registration of leased properties, the relevant rectification and on-going compliance measures mentioned above, our Directors are of the view that our Group has adequate and effective internal control procedures in place to prevent the recurrence of the non-compliance incidents and that these past non-compliance incidents do not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. The Sole Sponsor concurs with such view of our Directors on the same basis as described above.

COMPLIANCE WITH RELEVANT LAWS AND REQUIREMENTS

Licenses and Permits

Our operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality. We are required to obtain, among others, the following licenses for our business activities:

<u>Licenses/permits</u>	<u>Licensed Scope</u>	<u>Grade of qualification</u>	<u>Licensee</u>	<u>Period of validity</u>
Project Design Qualification (工程設計資質證書)	Environmental project: water pollution treatment projects and air pollution treatment projects	Grade A	Beijing Boqi	From October 29, 2014 to July 30, 2019

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Licenses/permits	Licensed Scope	Grade of qualification	Licensee	Period of validity
Projects Design Qualification (工程設計資質證書)	Municipal industry: water supply engineering and drainage engineering; electric power industry: power transmission engineering and substation engineering	Grade B	Beijing Boqi	From February 1, 2016 to May 11, 2020 for municipal industry; from February 1, 2016 to February 1, 2021 for electric power industry
Projects Consulting Unit Qualification (工程諮詢單位資格證書)	Ecological construction and environmental engineering, service scope includes preparing feasibility study report of projects, project application report, fund application report and project design	Grade A	Beijing Boqi	From August 14, 2013 to August 13, 2018
Projects Consulting Unit Qualification (工程諮詢單位資格證書)	Ecological construction and environmental engineering, service scope includes planning and consultation, preparing project proposal, evaluation consultation and engineering project management (planning throughout the whole process and management of the preparation stage; thermal power project, service scope includes planning and consultation, preparing project proposal, preparing feasibility study report of projects, project application report, fund application report, evaluation consultation and project design	Grade C	Beijing Boqi	From August 14, 2013 to August 13, 2018
Construction Industry Enterprises Qualification (建築業企業資質證書)	Professional contracting for environmental protection engineering	Class 1	Beijing Boqi	From November 12, 2015 to November 11, 2020
External Projects Contracting Qualification (對外承包工程資格證書)	Contracting foreign engineering projects which are suitable to its strength, scale and performance; and dispatching labors required to perform overseas projects mentioned above	N/A	Beijing Boqi	Since January 20, 2010

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Licenses/permits	Licensed Scope	Grade of qualification	Licensee	Period of validity
Work Safety License (安全生產許可證)	Building construction	N/A	Beijing Boqi	From December 31, 2016 to December 30, 2019
Operation License for Hazardous Chemicals (危險化學品經營許可證)	Wholesale of liquid ammonia (storage not included)	N/A	Anhui Nengda	From October 12, 2017 to October 11, 2020

Please see the section headed “Regulatory Overview—Laws and Regulations Relating to Environmental Protection Services” in this prospectus for an overview of the regulatory and legal framework for our operations.

As advised by our PRC legal advisor, Commerce & Finance Law Offices, we have obtained necessary licenses or equivalent approvals for our business activities as at the Latest Practicable Date except for the items discussed in the section headed “—Compliance with Relevant Laws and Requirements—Licenses and permits” above. We have designated staff to arrange and apply for the renewal of the licenses necessary for our business operations prior to their expiration. Our Directors are of the view that such non-compliance incidents as set forth above have not caused and will not have a material adverse effect on our business, results of operations and financial condition. Our Directors are also not aware of any historical and material non-compliance of our Group under PRC laws and regulations during the Track Record Period and as at the Latest Practicable Date.

LEGAL PROCEEDINGS

We are from time to time involved in certain legal proceedings arising in the ordinary course of our business, either as plaintiff, defendant or a third party in litigation or arbitration proceedings. As of the Latest Practicable Date, among the unsettled legal proceedings (we as a defendant) and arbitrations (we as a respondent), there are total two cases involving more than RMB1 million which are in relation to contract disputes such as payment for works and goods. The total amount involved in these two unsettled legal proceedings/arbitrations amounted to approximately RMB6.8 million.

During the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim that had material adverse effect on our operating results or financial conditions, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operating results or financial condition. As of the Latest Practicable Date, to the best knowledge of our Directors, none of our Directors are involved in any material litigation or other legal proceedings.