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You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in Appendix I—“Accountants’ Report” to this prospectus. The consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors”.

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.

During the Track Record Period, our business has maintained a stable growth. Our revenue increased from RMB1,239 million in 2014 to RMB1,351 million in 2015, which further increased to RMB1,353 million in 2016. For the nine months ended September 30, 2017, we recorded revenue of RMB798 million. Our net profit increased from RMB104 million in 2014 to RMB138 million in 2015, which further increased to RMB152 million in 2016. For the nine months ended September 30, 2017, our net profit amounted to RMB10 million, or RMB138 million if excluding changes in the fair value of our Class B Shares and Class C Shares. At September 30, 2017, our total assets reached RMB2,639 million.

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BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 30, 2015. On January 22, 2016, our Company became the holding company of the companies now comprising our Group. The Reorganization have been undertaken in preparation for the Global Offering. For details of the Reorganization, please see “History, Reorganization and Group Structure”.

This section sets forth certain consolidated financial information relating to our Group, including a description of our consolidated statements of profit or loss and consolidated cash flow statement, for the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017, and our consolidated statements of financial position at December 31, 2014, 2015 and 2016 and September 30, 2017.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those discussed below.

Developments in the PRC Economy and the PRC Energy Sector

Demand for services in the industry in which we conduct our businesses directly impacts our revenue and gross profit.

In the environmental protection sector, the growth trend in demand for the services we provide is attributable to the combination of a number of factors, including economic growth within the PRC, changes in the growth in power consumption, the increasing awareness of environmental protection, and the introduction of environmental protection and energy conservation related policies in China. China is currently the world’s second largest economy with one of the highest economic growth rates. This has fueled a continued increase in demand for energy and power in China, at growth rates which in some instances have exceeded growth in the GDP of China at the relevant time. China’s per capita power consumption, however, remained considerably lower than that of many developed countries, and we believe that China’s demand for power will continue to increase, which would in turn lead to increases in the installed capacity for power generation. Currently, a substantial proportion of the aggregate installed capacity within China is coal-fired. Given the environmental concerns relating to the use of coal-fired power plants, we expect that demand for our products and services will continue to increase as a result of these growth trend, as well as the current initiatives promulgated by the PRC Government with respect to environmental protection. The 13th Five-Year Plan of the PRC Government provides that the PRC Government will implement the most stringent environmental protection policy and will continue to promote the desulfurization, denitrification and dust removal upgrades for coal-fired boilers, especially in the petrochemical, non-ferrous metal smelting, iron and steel, and cement industry.

Demand for our services is dependent on developments in the PRC energy sector and the PRC economy, developments in these areas would impact our financial condition and results of operations.

Regulatory Environment and Government Support

Initiatives provided by the PRC Government through regulatory reform and policy implementation, as well as provision of financial and other governmental subsidies have stimulated

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demands for our services. The PRC Government has provided support in the form of policy initiatives and financial subsidies to both power plants and providers of certain services in the environmental protection and energy conservation sectors, which comprise the main sectors in which we operate. For a summary of certain regulatory initiatives and incentives which apply to us, please see “Regulatory Overview”.

Continued governmental support for the environmental protection and conservation industries have affected in the past, and will continue to affect our financial condition and results of operations. There can be no assurance that the PRC Government will continue to provide regulatory and financial support to operators in these industries, or that the level of such support will not decrease. If the PRC Government reduces or terminates such support, growth in these sectors, and consequently, our financial condition and results of operations may be affected. For details, please see “Risk Factors—The development of the environmental protection industry where we operate is highly dependent on the PRC Government’s pollution control policies.”

Business Model Development and Business Mix

Our operations are categorized into three major business segments based on different business models, each of which comprises further business lines: (i) the environmental protection facility engineering business segment mainly comprises of the desulfurization environmental protection construction business, the denitrification environmental protection facility engineering business and dust removal environmental protection facility engineering business; (ii) the operation and maintenance business segment mainly comprises of our desulfurization, denitrification and dust removal operation business and regular maintenance business; and (iii) the concession operation business segment mainly comprises of our desulfurization, denitrification and dust removal concession business conducted on a BOT basis.

Our three major business segments contribute to our revenue in different ways. For example, revenue from our environmental protection facility engineering business is recognized in line with the construction progress, while revenue from our operation and maintenance business is recognized during the operations of the project. Revenue from our BOT projects is recognized in line with the construction progress and then, after the completion of constructions, recognized during the operation of the project based on the electricity generated by the electricity-generating facilities that we provide service for. Compared to our environmental protection facility engineering business and operation and maintenance business, our concession operation business requires significantly more capital investment and requires us to hold the assets under the concession operations for a long period of time, but in return brings us with source of stable stream of income and cash flow. For details, please see “Business—Our Businesses—Overview”. Therefore, our results of operations and operating profit margin are affected by changes in our segment and business mix.

We aim to continue to strengthen our leading position in the businesses in which we operate, as well as to optimize our business mix through diversification of our projects under various business models. Our ability to develop and optimize our business mix depends on a variety of factors, including our ability to obtain financing at a reasonable cost and to manage our projects in an efficient and effective way. Our business, financial conditions and results of operations is subject to the impact of the development of different business models and our business mix.

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Competition

The level of competition in the industries in which we conduct our businesses may affect our revenue and consequently our financial condition and results of operations. We face competition from both domestic and international enterprises. The industry segments in which we operate are characterized by high initial capital costs and technological entry barriers. Given the significant start-up costs and time required to develop technological know-how and expertise, we believe we have a competitive advantage over new market entrants and existing operators given our access to capital resources and technology advances, which is key to maintaining our leading positions in the industry in which we operate. In light of the increased competition within the flue gas treatment business, we plan to expand our business scope into the comprehensive environmental protection business, such as water treatment, soil and solid waste treatment. For details, please see “Business—Our Development Strategies”. We will continue to face significant competition from our competitors in the future. Whether we will be able to maintain or further increase our current market share will largely depend on our ability to maintain our strengths in terms of financing capabilities, technology expertise, management and brand recognition, which would affect our financial condition and results of operations.

Seasonality

A substantial portion of our revenue and profit is derived from our environmental protection facility engineering business. While our environmental protection facility engineering projects spread across the country, certain projects located in northern regions such as Hebei, Shanxi, Inner Mongolia and Liaoning are seasonal in nature. The construction work for projects in such regions may be slowed down or even suspended during the first quarter due to cold weather as well as the Chinese New Year holiday. On the other hand, construction work for heat supplying facilities generally concentrate in the fourth quarter. Part of revenue attributable to our environmental protection facility engineering business are recognized based on the construction progress of our projects. Therefore our revenue during the first quarter of each year are generally lower than our annual average while revenue in the fourth quarter is generally higher.

Taxation

We and our subsidiaries are subject to PRC taxation, including income tax and VAT. During the Track Record Period, the statutory PRC enterprise income tax rate was 25%, as determined in accordance with relevant PRC income tax rules and regulations. However, under national and local tax regulations, certain preferential tax treatments are available to certain companies, industries and regions. For example, as of September 30, 2017, some of our subsidiaries were categorized as “high-end new technology enterprises” and are entitled to a preferential tax rate of 15%. Some of our other subsidiaries are entitled to a three-year tax holiday followed by a three-year 50% tax rate reduction as their operations fall within certain qualified environmental protection and energy conservation sectors as defined by the PRC Government. Our effective income tax rates (calculated by dividing our income tax expense by our profit before tax for the corresponding period) in 2014, 2015 and 2016 and for the nine months ended September 30, 2017 were 20.0%, 21.1%, 21.2% and 72.2%, respectively. On May 1, 2016, the PRC tax authority initiated the national transition from a business tax regime to a VAT regime. Certain of our subsidiaries were subject to preferential tax treatments in the form of VAT refunds from local governments during the Track Record Period. There can be no assurance that the preferential tax treatments we currently enjoy will remain unchanged. Changes in the PRC taxation

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regulation and our preferential tax treatments would impact our financial conditions and results of operations.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Revenue Recognition

Our revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of Goods

Revenue from sales of goods is recognized when the goods are delivered and the title has transferred to the customer.

Construction Contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized with reference to the stage of completion of the contract activities at the end of the reporting period, measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent that the contract costs incurred are probable to be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and notes receivables.

O&M Services

Revenue from the provision of O&M services is recognized when relevant services are provided.

Concession Operations

We recognize revenue in both the construction and operation phases of our concession operation projects. The accounting treatment of our infrastructure as service concession arrangements has had and will continue to have a material impact on our results of operations and financial position.

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Non-cash revenue from the construction or upgrade of our concession operation projects is recognized in line with the construction progress, which is determined based on the construction costs incurred and a fixed gross profit margin of 1%. We determined this gross profit margin with reference to our historical experience with the gross profit margin of EPC projects. Accordingly, we recognize, for all of our concession operation projects, an intangible asset (if our future service fees are variable based on amount of services actually rendered), or a receivable under service concession arrangements (if we are entitled to receive a guaranteed minimum payment from the customer), in line with our revenue recognized for the construction of the concession operation project in accordance with IFRIC 12. Please see “Business—Our Businesses—Concession Operation Business—Characteristics of Business Model and Revenue Recognition Policy—Revenue Recognition Policy.” We do not receive any cash payment during the construction of our concession operation projects.

Revenue from the operation of our concession operation projects is recognized in the period in which services are rendered, in line with our revenue recognition method for our O&M services. For concession operation projects where we receive variable service fees, the relevant intangible assets are amortized over the operation period as costs. For concession operation projects where we are entitled to a guaranteed minimum fee, payment from customer are apportioned into (i) repayment of the relevant receivables under concession arrangements, (ii) interest income on the relevant receivables under concession arrangements, and (iii) the remainder being recognized as service income.

Property, Plant and Equipment

Property, plant and equipment, including leasehold land (classified as finance leases) and building held for administrative purposes other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less accumulated depreciation and any accumulated impairment losses.

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

Construction in progress is carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Intangible Assets

Intangible Assets Relating to Concession Operations

We recognize intangible assets for our concession operation projects to reflect our rights to operate the concession facilities and to receive income that is determinable based on the actual amount

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of services provided. Intangible assets are recognized during the construction phase of our concession operation projects in line with our revenue recognition during the construction progress. These intangible assets are initially recognized at fair value, based on our historical experience of the costs of and returns on concession operations, and then carried at amortized cost and accumulated impairment losses (if any). These intangible assets relating to our concession operations are then amortized using the straight-line method during the operating period of the corresponding concession operation project as our cost of services.

Other Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are calculated using the first-in-first-out method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Government Grants

Government grants are recognized when there is reasonable assurance that we will comply with the conditions attaching to the grants and that the grants will be received. Grants that are intended to compensate us for expenses incurred are recognized as revenue on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate us for the cost of an asset are initially recognized as deferred income and are subsequently recognized in profit or loss over the useful life of the asset.

Impairment of Tangible and Intangible Assets

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

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Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

SUMMARY OF ACCOUNTING TREATMENT FOR CONCESSION OPERATION PROJECTS

For our concession operation projects, we review each of our service concession arrangement contract and generally classify our activities under such arrangements into two categories, namely (i) construction and upgrade, and (ii) operation. During the construction or upgrade of our concession operation projects, we design the relevant facilities, procure the necessary equipment, and build and/or upgrade the facilities. Upon the completion of the construction or upgrade, we are granted the right to operate the facilities during a specified concession period, which typically lasts for 15-20 years, and are entitled to fees during the concession period to cover our costs of investment, construction, operation and maintenance and to provide us reasonable returns.

All our concession operation projects are within the scope of service concession arrangements under IFRS Interpretations Committee Interpretation 12 – Service Concession Arrangements (“**IFRIC 12**”) because, in the opinion of our Directors, our service concession arrangements contain the following:

- the grantors control or regulate the services that we must provide with the infrastructure, to whom we must provide such services, and at prices agreed with the grantors;
- the grantors of the infrastructure controls, through ownership, any significant residual interest in the infrastructure at the end of the service concession agreement; and
- the grantors restrict our practical ability to sell or pledge the infrastructure that give us continuing right of use throughout the period of the arrangements.

In accordance with IFRIC 12, we can:

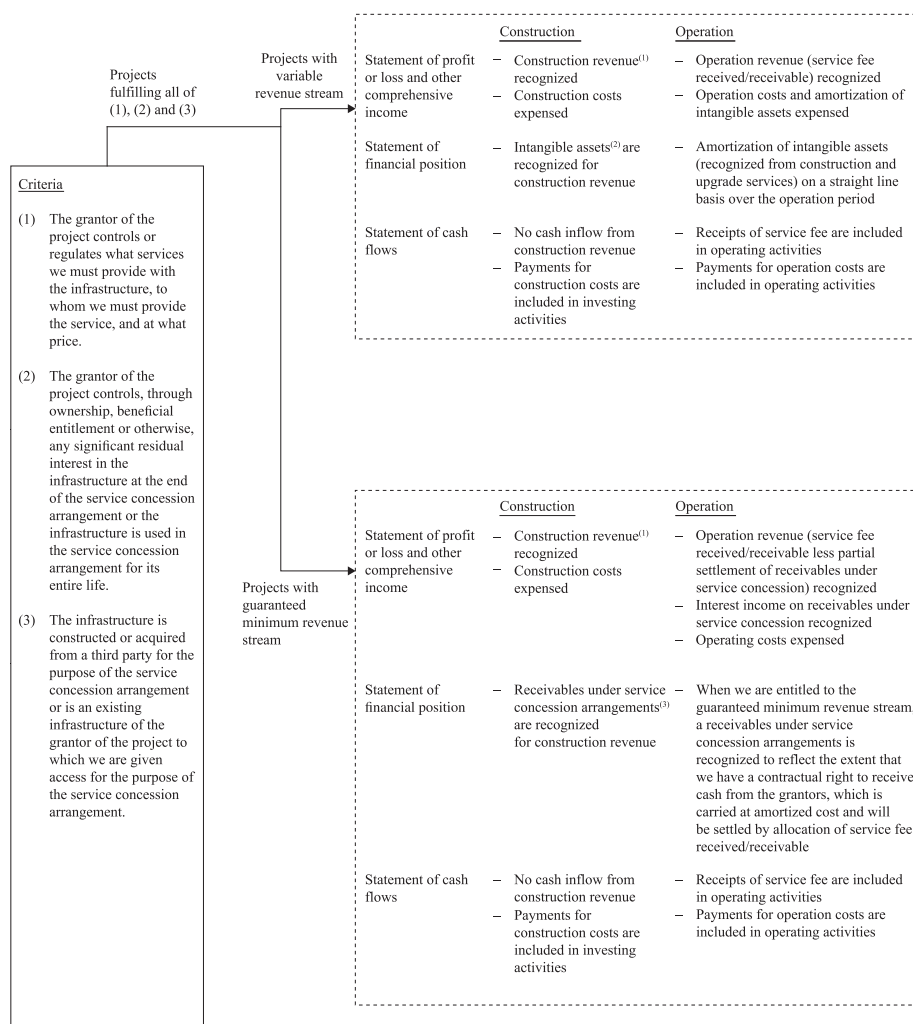
- during the construction and upgrade of the project, recognize construction revenue based on the construction costs plus a profit mark-up, and recognize an intangible asset or receivable under service concession arrangement; and

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- during the operation of the project, recognize operation revenue, and amortize the intangible assets or recognize interest income on the receivables under service concession arrangements throughout the specified concession period.

The accounting treatment of service concession arrangements involves judgment and affects the presentation of our results of operation. Several key aspects of this accounting treatment are summarized below.

The following chart sets forth a summary of our accounting treatments for our concession operation projects.



Notes:

- (1) On a cost-plus basis with a fixed gross profit margin of 1%, which we determined with reference to our historical experience with the gross profit margins for our past EPC projects.
- (2) At the end of each reporting period, we review the carrying amounts of our intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).
- (3) Our receivables under service concession arrangements are initially measured as the present value of the guaranteed minimum income from the concession operation project, and are assessed for indicators of impairment at the end of each reporting period. Impairments are made when there is objective evidence that, as a result of one or more events that occurred after their initial recognition.

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Construction

During the construction of our concession operation projects, we recognize non-cash construction revenue but do not receive payment from the customer until the operation of the project commences. Thus there is a mismatch between the recognition of construction revenue and cash flows during the construction of our concession operation projects. The amount of the non-cash construction revenue is recorded as an asset on our statement of financial position.

For concession operation projects without a guaranteed stream of future payments, construction revenue is recorded on our statement of financial position as an intangible asset. Such intangible asset represents our rights to receive future revenue under such arrangements. During the operation of the project, the entire sum of service fees we receive is recorded as operating revenue. After the project commences operation, the intangible asset is amortized on a straight-line basis over the term of operation.

For concession operation projects with a guaranteed future revenue stream, we treat the construction revenue as receivables under service concession arrangements on our statement of financial position. The amount of the receivable is determined as the present value of such guaranteed minimum payment that we are entitled to receive, and is currently calculated using a discount rate of 6.37%, which is determined with reference to the market interest rate and our credit risk exposure to the relevant customer. When we receive service fees during the operation of the project, we allocate the service fees as follows: (i) a portion to pay down the balance of receivables under service concession arrangements, (ii) amortized interest on the receivables under service concession arrangements, and (iii) the remainder to be recognized as operating revenue. The balance of service concession receivables will be completely paid down at the end of the concession period.

Construction revenue for our concession operation projects is recognized in line with the progress of construction projects. Construction revenue for our concession operation projects is determined based on our construction costs plus a 1% profit mark-up. We determined the 1% profit mark-up with reference to our historical experience with the gross profit margins for our past EPC projects.

We assess, at the end of each reporting period, whether there is an indication that an intangible asset or receivable under service concession arrangements may be impaired. Possible indicators of asset impairment include physical damage to a project's facilities and material adverse changes in the market environment. Other objective evidence of impairment include (a) significant financial difficulty of the counterparty; (b) breach of contract, such as default or delinquency in payments; or (c) it becoming probable that the counterparty will enter bankruptcy or financial re-organization. If any such indication exists, or when an annual impairment assessment is required, we conduct an impairment test. During the Track Record Period, there was no indication that any intangible asset or receivable under service concession arrangement was impaired.

To determine the fair value of the intangible assets, we estimate the discounted future cash flow from the intangible assets, making certain assumptions about the future tax, inflation, and service fee growth rates, future demand for service, and the discount rate. In testing intangible assets for impairment, we conduct sensitivity analysis by varying our assumptions about the future electricity generation hours and the discount rate.

The recoverable amount of a receivable under service concession arrangements is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash

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flows expected to be generated by the relevant receivable under service concession arrangement are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the project. When the carrying amount of a receivable under service concession arrangement exceeds its recoverable amount, such receivable under service concession arrangement is considered impaired and is written down to its recoverable amount.

Our ability to realize future cash flows, as assessed under an impairment test, is affected by factors such as changes in economic conditions and changes in our operating performance. As we periodically reassess our assumptions, including estimated future cash flows, changes in our estimates and assumptions may cause us to record material impairment charges in the future.

Operation

Revenue from the operation of our concession operation projects is recognized in the period in which services are rendered, which is in line with our revenue recognition method for our O&M services. For concession operation projects where we receive variable service fees (for example, calculated based on the actual electricity generation), the relevant intangible assets under service concession arrangements are amortized evenly over the operation period as costs. For concession operation projects where we are entitled to a guaranteed minimum fee, payment from customer are apportioned into (i) repayment of the relevant receivables under service concession arrangements, (ii) interest income on the relevant receivables under service concession arrangements, and (iii) the remainder being recognized as service income. The operation costs and the amortization of intangible assets incurred were recognized in cost of sales and services during the operation of our concession operation projects.

The intangible assets under service concession arrangements are amortized evenly throughout the operation (including trial operation) period of the project. At the end of each reporting period, we review the carrying amounts of our intangible assets under service concession arrangements and receivables under service concession arrangements to determine whether there is any indication that those assets have suffered an impairment loss.

During the operation of our concession operation projects, we received service fees from our projects. Receipts of service fees and payments of operation costs are regarded as cash flows in our operating activities on the statements of cash flows during the operation of our concession operation projects.

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RESULTS OF OPERATIONS

The following discussion addresses the principal trends that have affected our results of operations during the Track Record Period. The following table sets out our consolidated results of operations for the periods indicated.

	For the year ended December 31,						For the nine months ended September 30,			
	2014		2015		2016		2016 (unaudited)		2017	
	RMB millions	% of total revenue	RMB millions	% of total revenue	RMB millions	% of total revenue	RMB millions	% of total revenue	RMB millions	% of total revenue
Revenue	1,239	100.0	1,351	100.0	1,353	100.0	914	100.0	798	100.0
Cost of sales and services	(1,039)	83.9	(1,105)	81.8	(1,099)	81.2	(733)	80.2	(581)	72.8
Gross profit	200	16.1	246	18.2	254	18.8	181	19.8	217	27.2
Other income and other gains and losses	(6)	0.5	(5)	0.4	28	2.0	3	0.3	8	1.0
Selling and distribution expenses	(8)	0.6	(11)	0.8	(16)	1.2	(9)	1.0	(12)	1.5
Administrative expenses	(58)	4.7	(63)	4.7	(72)	5.3	(50)	5.5	(59)	7.4
Share of profit of an associate	11	0.9	16	1.2	15	1.1	8	0.9	25	3.1
Finance costs	(9)	0.7	(8)	0.6	(7)	0.5	(4)	0.4	(5)	0.6
Change in fair value of convertible ordinary shares	—	—	—	—	—	—	—	—	(128)	16.0
Listing expenses	—	—	—	—	(9)	0.7	(3)	0.3	(10)	1.3
Profit before tax	130	10.5	175	12.9	193	14.2	126	13.8	36	4.5
Income tax expense	(26)	2.1	(37)	2.7	(41)	3.0	(34)	3.7	(26)	3.2
Profit for the year/ period	<u>104</u>	<u>8.4</u>	<u>138</u>	<u>10.2</u>	<u>152</u>	<u>11.2</u>	<u>92</u>	<u>10.1</u>	<u>10</u>	<u>1.3</u>
Profit for the year/ period attributable to:										
Owners of the Company	104		137		152		92		10	
Non-controlling interests	—		1		—		—		—	
Profit for the year/ period	<u>104</u>		<u>138</u>		<u>152</u>		<u>92</u>		<u>10</u>	
Non-IFRS Measure:										
Adjusted profit for the year/period (unaudited) ⁽¹⁾	104		138		152		92		138	

Note:

(1) Represents our profit for the year/period excluding changes in the fair value of convertible ordinary shares. Adjusted net profit is not a measure required by, or presented in accordance with, IFRS. The use of adjusted profit for the year/period has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See Note 30 “Convertible Ordinary Shares” to our historical financial information in the Accountants’ Report set forth in Appendix I to this prospectus.

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The following table sets out other financial information and operating data of ours for the periods indicated.

	At or for the year ended December 31,			At or for the nine months ended September 30,
	2014	2015	2016	2017
Gearing ratio ⁽¹⁾	13.0%	8.1%	33.7%	8.3%
Current ratio (times) ⁽²⁾	1.7	1.6	1.3	1.3
Gross profit margin ⁽³⁾	16.1%	18.2%	18.8%	27.2%
Net profit margin ⁽⁴⁾	8.4%	10.2%	11.2%	1.3%

Notes:

- (1) Our gearing ratio is calculated as the percentage which our total bank borrowings bears to the aggregate of our equity.
- (2) Our current ratio is calculated as our current assets divided by our current liabilities.
- (3) Our gross profit margin is calculated as the percentage which our gross profit bears to our total revenue.
- (4) Our net profit margin is calculated as the percentage which our net profit after taxes bears to our total revenue.

Revenue

We generate our revenues primarily from three major segments: (i) environmental protection facility engineering business, (ii) operation and maintenance business, and (iii) concession operation business.

The following table sets forth a breakdown of our revenue by segment for the periods stated.

	For the year ended December 31,						For the nine months ended September 30,			
	2014		2015		2016		2016 (unaudited)		2017	
	RMB millions	%	RMB millions	%	RMB millions	%	RMB millions	%	RMB millions	%
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										
Construction	—	—	80	5.9	118	8.8	107	11.7	51	6.4
Operation	172	13.9	169	12.5	198	14.6	131	14.3	170	21.3
Subtotal	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	<u>1,239</u>	<u>100.0</u>	<u>1,351</u>	<u>100.0</u>	<u>1,353</u>	<u>100.0</u>	<u>914</u>	<u>100.0</u>	<u>798</u>	<u>100.0</u>

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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
			2014	2015	2016	September 30, 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			<u>781</u>	<u>816</u>	<u>764</u>	<u>261</u>
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			<u>256</u>	<u>250</u>	<u>221</u>	<u>295</u>
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			<u>30</u>	<u>36</u>	<u>52</u>	<u>21</u>
Total			<u>1,239</u>	<u>1,351</u>	<u>1,353</u>	<u>798</u>

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.

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The following table sets forth, for the periods indicated, a breakdown of our revenue from our concession operation business by business type and project phase.

	For the year ended December 31,			For the nine months ended September 30,
	2014	2015	2016	2017
	(RMB millions)			
Desulfurization				
Construction	—	79	35	37
Operation	<u>111</u>	<u>109</u>	<u>99</u>	<u>95</u>
Subtotal	<u>111</u>	<u>188</u>	<u>134</u>	<u>132</u>
Denitrification				
Construction	—	1	8	1
Operation	<u>61</u>	<u>60</u>	<u>56</u>	<u>38</u>
Subtotal	<u>61</u>	<u>61</u>	<u>64</u>	<u>39</u>
Green Island				
Construction	—	—	75	13
Operation	<u>—</u>	<u>—</u>	<u>43</u>	<u>37</u>
Subtotal	<u>—</u>	<u>—</u>	<u>118</u>	<u>50</u>
Total	<u><u>172</u></u>	<u><u>249</u></u>	<u><u>316</u></u>	<u><u>221</u></u>

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Our revenue decreased by 12.7% from RMB914 million for the nine months ended September 30, 2016 to RMB798 million for the nine months ended September 30, 2017, primarily attributable to a decrease in revenue from our environmental protection facility engineering business, which was partially offset by an increase in revenue from our operation and maintenance business.

Our revenue from environmental protection facility engineering business decreased by 44.7% from RMB472 million for the nine months ended September 30, 2016 to RMB261 million for the nine months ended September 30, 2017, primarily due to the “ultra-low emission” upgrading projects we undertook with relatively small contract value, and a decrease in the number of existing EPC projects in the nine months ended September 30, 2017 compared to the same period in 2016.

Our revenue from operation and maintenance business increased by 82.1% from RMB162 million for the nine months ended September 30, 2016 to RMB295 million for the nine months ended September 30, 2017, primarily due to our new O&M project in 2017 for large-scale electricity generating facilities.

Our revenue from concession operation business decreased by 7.1% from RMB238 million for the nine months ended September 30, 2016 to RMB221 million for the nine months ended September 30, 2017, primarily attributable to a decrease in our revenue from the construction of our BOT projects, which was partially offset by an increase in our revenue from the operation of our BOT projects. The decrease in our revenue from the construction of our BOT projects was primarily due to the completion of the construction of our BOT projects in 2016. The increase in our revenue from the operation of our BOT projects was primarily due to (i) an increase in our service income received for the operation of certain projects after the completion of “ultra-low emission” upgrades, and (ii) an increase in the electricity generating hours resulting from the increased demands for electricity and the

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resumption of operations of certain BOT projects after the completion of “ultra-low emission” upgrades.

2016 Compared to 2015

Our revenue remained effectively stable at RMB1,351 million and RMB1,353 million in 2015 and 2016, respectively, primarily due to an increase in revenue from concession operation business resulting from a strategic shift in our business model and decreases in revenue from operation and maintenance business and environmental protection facility engineering business.

Our revenue from environmental protection facility engineering business decreased slightly by 6.4% from RMB816 million in 2015 to RMB764 million in 2016, primarily due to the substantial completion of the construction of certain large-scaled projects in 2015, and the “ultra-low emission” upgrading projects we undertook with relatively small contract value.

Revenue from operation and maintenance business decreased by 11.6% from RMB250 million in 2015 to RMB221 million in 2016, primarily due to the termination of two O&M projects upon the expiration of contracts as a result of the customers’ decision to discontinue outsourcing the operation and maintenance of the facilities.

Our revenue from our concession operation business increased by 26.9% from RMB249 million in 2015 to RMB316 million in 2016 as a result of increases in our revenue from both the construction and the operation of BOT projects. The increase in our construction revenue was in line with the construction progress of new BOT projects, reflecting the overall growth of our concession operation business. The increase in our revenue from the operation of BOT projects was primarily due to the commencement of operations of certain new projects upon completion of construction and upgrades.

2015 Compared to 2014

Our revenue increased by 9.0% from RMB1,239 million in 2014 to RMB1,351 million in 2015, primarily attributable to an increase in revenue from our concession operations.

Our revenue from environmental protection facility engineering business increased by 4.5% from RMB781 million in 2014 to RMB816 million in 2015, primarily due to our recognition of revenue in 2015 for certain large-scaled projects, the construction of which commenced in the end of 2014.

Our revenue from operation and maintenance business remained effectively stable at RMB256 million and RMB250 million in 2014 and 2015, respectively.

Our revenue from our concession operation business increased by 44.8% from RMB172 million in 2014 to RMB249 million in 2015, primarily attributable to our revenue recognized in line with the construction progress of a new BOT project, reflecting the overall growth of our concession operation business.

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Cost of Sales and Services

The following table sets forth a breakdown of our cost of sales and services by business segment for the periods stated.

	For the year ended December 31,						For the nine months ended September 30,			
	2014		2015		2016		2016 (unaudited)		2017	
	RMB millions	%	RMB millions	%	RMB millions	%	RMB millions	%	RMB millions	%
Environmental protection facility engineering	736	70.8	765	69.3	649	59.1	396	54.0	237	40.8
Operation and maintenance	187	18.0	157	14.2	170	15.5	115	15.7	192	33.0
Concession operation										
Construction	—	—	80	7.2	117	10.6	106	14.4	51	8.7
Operation	96	9.3	86	7.8	121	11.0	84	11.5	91	15.7
Subtotal	96	9.3	166	15.0	238	21.6	190	25.9	142	24.4
Others	20	1.9	17	1.5	42	3.8	32	4.4	10	1.8
Total cost of sales and services	1,039	100.0	1,105	100.0	1,099	100.0	733	100.0	581	100.0

The following table sets forth a breakdown of our cost of sales and services by nature for the periods stated.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB millions)				
Equipment procurement costs	433	492	313	192	51
Construction and installations costs	195	256	330	259	153
Raw materials costs	193	162	207	140	225
Project management costs	81	62	85	35	30
Staff costs	51	68	83	56	65
Amortization and depreciation	28	29	33	24	25
Repair & Maintenance costs	30	12	17	8	15
Design costs	21	17	20	14	10
Others	7	7	11	5	7
Total	1,039	1,105	1,099	733	581

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Cost of sales and services for our environmental protection facility engineering business consists primarily of equipment procurement costs and construction and installation costs. The following table sets forth a breakdown of our cost of sales and services for our environmental protection facility engineering business by nature of costs.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB millions)				
Equipment procurement costs	420	480	301	180	51
Construction and installation costs	192	176	212	139	102
Raw material costs	43	29	45	25	36
Project management costs	56	52	48	25	20
Staff costs	6	13	25	14	18
Design costs	19	15	18	13	10
Total	736	765	649	396	237

Cost of sales and services for our O&M services consists of raw materials costs, staff costs and repair and maintenance costs. The following table sets forth a breakdown of our cost of sales and services for our operation and maintenance business by nature of costs.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB millions)				
Raw material costs	94	84	96	66	125
Staff costs	39	49	47	35	41
Repair and maintenance costs	25	8	11	5	13
Project management costs	22	9	8	4	6
Others	7	7	8	5	7
Total	187	157	170	115	192

Cost of sales and services for our concession operation business consists primarily of raw material costs, construction costs and amortization and depreciation. The following table sets forth a breakdown of our cost of sales and services for our concession operation business by nature of costs.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB millions)				
Raw material costs	56	47	65	47	57
Construction costs	—	79	118	106	51
Amortization and depreciation	28	29	33	24	25
Staff costs	6	6	10	7	6
Repair and maintenance costs	4	4	6	3	2
Project management costs	2	1	3	3	1
Others	—	—	3	—	—
Total	96	166	238	190	142

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Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Our cost of sales and services decreased by 20.7% from RMB733 million for the nine months ended September 30, 2016 to RMB581 million for the nine months ended September 30, 2017, primarily attributable to a decrease in cost of sales and services for our environmental protection facility engineering business, which was partially offset by an increase in costs of our operation and maintenance business.

Our cost of sales and services for environmental protection facility engineering business decreased by 40.2% from RMB396 million for the nine months ended September 30, 2016 to RMB237 million for the nine months ended September 30, 2017, primarily due to the “ultra-low emission” upgrading projects we undertook with relatively small contract value, and a decrease in the number of existing EPC projects in the nine months ended September 30, 2017 compared to the same period in 2016.

Our cost of sales and services for operation and maintenance business increased by 67.0% from RMB115 million for the nine months ended September 30, 2016 to RMB192 million for the nine months ended September 30, 2017, primarily attributable to increases in raw material costs and staff costs resulting from the commencement of our new O&M project in 2017 for large-scale electricity generating facilities.

Our cost of sales and services for concession operation business decreased by 25.3% from RMB190 million for the nine months ended September 30, 2016 to RMB142 million for the nine months ended September 30, 2017, primarily attributable to a decrease in the construction costs of our BOT projects resulting from the completion of construction of our BOT projects in 2016, which was partially offset by an increase in the operation costs for our BOT projects resulting from an increase in raw material costs in line with the increase in the electricity generating hours.

2016 Compared to 2015

Our cost of sales and services remained effectively stable at RMB1,105 million and RMB1,099 million in 2015 and 2016, primarily due to a decrease in the cost of sales and services for our environmental protection facility engineering business, which was offset by increases in the cost of sales and services for our concession operation business and operation and maintenance business. Cost of sales and services remained effectively stable, as a percentage of our revenue, at 81.8% and 81.2% in 2015 and 2016, respectively.

Our cost of sales and services for environmental protection facility engineering business decreased by 15.2% from RMB765 million in 2015 to RMB649 million in 2016, primarily due to an increase in “ultra-low emission” upgrading projects with relatively small contract value as a percentage of our EPC projects.

Our cost of sales and services for operation and maintenance business increased by 8.3% from RMB157 million in 2015 to RMB170 million in 2016, primarily due to (i) a change in our settlement method with a customer, and (ii) an increase in staff costs.

Our cost of sales and services for concession operation business increased by 43.4% from RMB166 million in 2015 to RMB238 million in 2016, primarily attributable to an increase in the construction costs of our BOT projects, and, to a lesser extent, an increase in the operation cost of the

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BOT projects. The increase in our construction costs was in line with the construction progress of our new BOT project and the upgrade of our existing BOT project. The increase in our operation costs was primarily attributable to an increase in raw material costs resulting from an increase in the number of our BOT projects in operations.

2015 Compared to 2014

Our cost of sales and services increased by 6.4% from RMB1,039 million in 2014 to RMB1,105 million in 2015, primarily attributable to increases in cost of sales and services for our concession operation business and environmental protection facility engineering business, which were partially offset by a decrease in cost of sales and services for our operation and maintenance business. Cost of sales and services decreased, as a percentage of our revenue, from 83.9% in 2014 to 81.8% in 2015.

Our cost of sales and services for environmental protection facility engineering business increased slightly by 3.9% from RMB736 million in 2014 to RMB765 million in 2015, primarily due to an increase in equipment procurement costs, which was largely offset by decreases in construction and installation costs and raw material costs.

Our cost of sales and services for operation and maintenance business decreased by 16.0% from RMB187 million in 2014 to RMB157 million in 2015, primarily due to a decrease in repair and maintenance costs, reflecting the non-recurring costs we incurred in 2014 for the maintenance of certain facilities.

Our cost of sales and services for concession operation business increased by 72.9% from RMB96 million in 2014 to RMB166 million in 2015, primarily attributable to an increase in the construction cost of the BOT project, reflecting the overall growth of our concession operation business.

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit and gross profit margin for each of our business segments for the periods stated.

	For the year ended December 31,						For the nine months ended September 30,			
	2014		2015		2016		2016 (unaudited)		2017	
	RMB millions	Gross Profit Margin %	RMB millions	Gross Profit Margin %	RMB millions	Gross Profit Margin %	RMB millions	Gross Profit Margin %	RMB millions	Gross Profit Margin %
Environmental protection facility engineering	45	5.8	51	6.3	115	15.1	76	16.1	24	9.2
Operation and maintenance	69	27.0	93	37.2	51	23.1	47	29.0	103	34.9
Concession operation										
Construction	—	—	—	—	1	0.8	1	0.9	—	—
Operation	76	44.2	83	49.1	77	38.9	47	35.9	79	46.5
Subtotal	76	44.2	83	33.3	78	24.7	48	20.2	79	35.7
Others	10	33.3	19	52.8	10	19.2	10	23.8	11	52.4
Total gross profit	200	16.1	246	18.2	254	18.8	181	19.8	217	27.2

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The following table sets forth, for the periods indicated, a breakdown of our gross profit from our concession operation business by business type and project phase.

	For the year ended December 31,			For the nine months ended September 30,
	2014	2015	2016	2017
	(RMB millions)			
Desulfurization				
Operation	41	49	38	49
Subtotal	41	49	38	49
Denitrification				
Operation	35	34	25	17
Subtotal	35	34	25	17
Green Island				
Construction	—	—	1	—
Operation	—	—	14	13
Subtotal	—	—	15	13
Total	76	83	78	79

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

As a result of the foregoing factors, our gross profit increased by 19.9% from RMB181 million for the nine months ended September 30, 2016 to RMB217 million for the nine months ended September 30, 2017, while the gross profit margin increased significantly from 19.8% for the nine months ended September 30, 2016 to 27.2% for the nine months ended September 30, 2017.

Our gross profit for environmental protection facility engineering business decreased by 68.4% from RMB76 million for the nine months ended September 30, 2016 to RMB24 million for the nine months ended September 30, 2017, primarily due to a decrease in our revenue from environmental protection facility engineering business, and a decrease in our gross profit margin for environmental protection facility engineering business. The gross profit margin decreased from 16.1% for the nine months ended September 30, 2016 to 9.2% for the nine months ended September 30, 2017, primarily due to our receipt of non-recurring compensation from certain customers in 2016 for work performed outside the contracted scope, and the release of certain costs, which we had previously made provisions for, after our settlement with customers in 2016.

Our gross profit for operation and maintenance business increased significantly from RMB47 million for the nine months ended September 30, 2016 to RMB103 million for the nine months ended September 30, 2017, and the gross profit margin increased from 29.0% for the nine months ended September 30, 2016 to 34.9% for the nine months ended September 30, 2017, primarily due to our new O&M project for large-scale power generating facilities, which had relatively high gross profit margin.

Our gross profit for concession operation business increased significantly from RMB48 million for the nine months ended September 30, 2016 to RMB79 million for the nine months ended September 30, 2017 and the gross profit margin for concession operation business increased from 20.2% for the nine months ended September 30, 2016 to 35.7% for the nine months ended September 30, 2017, primarily due to (i) an increase in our service fees for the operation of our certain BOT projects after the completion of “ultra-low emission” upgrades, (ii) an increase in electricity

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generating hours, (iii) an increase in our revenue from the operation of our BOT projects, which had relatively higher gross profit margin than revenue from the construction of BOT projects, as a percentage of our total revenue from concession operation business, and (iv) an increase in the gross profit margin for the operation of our BOT projects as a result of a decrease in our average costs in line with the increase in the electricity generating hours.

2016 Compared to 2015

As a result of the foregoing factors, our gross profit remained effectively stable at RMB246 million and RMB254 million in 2015 and 2016, respectively, and the gross profit margin increased from 18.2% in 2015 to 18.8% in 2016.

Our gross profit for environmental protection facility engineering business more than doubled from RMB51 million in 2015 to RMB115 million in 2016, and the gross profit margin increased significantly from 6.3% in 2015 to 15.1% in 2016, primarily due to our receipt of compensation from certain customers for work performed outside the contracted scope, and the release of certain costs, which we had previously made provisions for, after our settlement with customers in 2016.

Our gross profit for operation and maintenance business decreased by 45.2% from RMB93 million in 2015 to RMB51 million in 2016, and the gross profit margin decreased from 37.2% in 2015 to 23.1% in 2016, primarily due to (i) the expiration of certain O&M contracts, (ii) a decrease in service fees we charged for certain O&M projects, (iii) an increase in staff costs, and (iv) a change in our settlement method with certain customer.

Our gross profit for concession operation business decreased by 6.0% from RMB83 million in 2015 to RMB78 million in 2016, and the gross profit margin decreased from 33.3% in 2015 to 24.7% in 2016, primarily due to a decrease in the gross profit margin for the operation of our BOT projects as a result of a decrease in the electricity generating hours resulting from power plant upgrades, partially offset by the commencement of operation of a new project.

2015 Compared to 2014

As a result of the foregoing factors, our gross profit increased by 23.0% from RMB200 million in 2014 to RMB246 million in 2015, while the gross profit margin increased from 16.1% in 2014 to 18.2% in 2015.

Our gross profit for environmental protection facility engineering business increased by 13.3% from RMB45 million in 2014 to RMB51 million in 2015, primarily due to an increase in the number of projects under construction and a higher gross profit margin. The gross profit margin for environmental protection facility engineering business increased from 5.8% in 2014 to 6.3% in 2015, primarily due to the high gross profit margins of our new overseas projects in 2015.

Our gross profit for operation and maintenance business increased by 34.8% from RMB69 million in 2014 to RMB93 million in 2015, primarily due to the release of certain costs, which we had previously made provisions for, and an increase in the services fees charged for a certain project. The gross profit margin for operation and maintenance business increased from 27.0% in 2014 to 37.2% in 2015, primarily reflecting our increased cost control and the release of certain costs that we previously made provisions for.

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Our gross profit for concession operation business increased by 9.2% from RMB76 million in 2014 to RMB83 million in 2015. The gross profit margin for our concession operation business decreased from 44.2% in 2014 to 33.3% in 2015, primarily due to an increase in our revenue from the construction of BOT projects, which had a relatively low gross profit margin.

Other Income and Other Gains and Losses

Other income and other gains and losses consist primarily of foreign exchange losses, interest income, government grants and allowance for trade and notes receivables and their reversals.

The following table sets forth a breakdown of other income and other gains and losses for the periods stated.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB thousands)				
Foreign exchange losses	—	—	(4,107)	(19,283)	(8,759)
Interest income	8,404	13,627	7,543	5,438	6,746
Government grants	3,120	2,257	10,138	6,112	4,441
(Allowance)/reversal of allowance for trade and notes receivables	(19,034)	(24,606)	10,692	5,984	2,753
(Allowance)/reversal of allowance for other receivables	(1,500)	(30)	133	800	(300)
Allowance for inventories	(1,961)	—	(796)	(41)	(484)
Investment income from financial products	2,331	—	—	—	—
Others ⁽¹⁾	2,263	3,257	4,794	4,093	3,379
Total	<u>(6,377)</u>	<u>(5,495)</u>	<u>28,397</u>	<u>3,103</u>	<u>7,776</u>

Note:

(1) Consists primarily of rental income, and gains and losses on disposal of property, plant and equipment.

Foreign exchange losses represent foreign exchange losses on our foreign currency denominated deposits and loans.

Interest income consists of interest income generated from our bank deposits.

Government subsidies and grants consists of various incentives we receive from the PRC Government.

Investment income from financial products consisted of our gains from certain wealth management products we purchased in 2014.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Our other income and gains more than doubled from RMB3 million for the nine months ended September 30, 2016 to RMB8 million for the nine months ended September 30, 2017, primarily attributable to a decrease in foreign exchange losses, which was partially offset by a decrease in reversal of allowance for trade and notes receivables. We recorded foreign exchange losses of RMB19 million for the nine months ended September 30, 2016, primarily attributable to foreign exchange losses on the JPY-denominated loans that we assumed to settle the bank borrowings of Boqi Environmental Engineering as a part of our Reorganization. Please see “History, Reorganization and

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Group Structure—Reorganization” for details on these JPY-denominated loans as a result of changes in the exchange rate of Japanese Yen against Renminbi. We recorded foreign exchange losses of RMB9 million for the nine months ended September 30, 2017, primarily attributable to foreign exchange losses on our USD-denominated deposits as a result of changes in the exchange rate of US dollars against Renminbi. Reversal of allowance for trade and notes receivables decreased by 50.0% from RMB6 million for the nine months ended September 30, 2016 to RMB3 million for the nine months ended September 30, 2017, primarily due to a decrease in our recovery of trade receivables that we had made provisions for.

2016 Compared to 2015

We recorded other income and gains of RMB28 million in 2016, while we recorded other losses of RMB5 million in 2015, primarily attributable to the reversal of allowance for trade and notes receivables of RMB11 million in 2016 as compared to the provision of allowance for trade and notes receivables of RMB25 million in 2015 and an increase in government grants recognized, which was partially offset by a decrease in interest income and the foreign exchange losses we incurred in 2016. The reversal of allowance for trade and notes receivables in 2016 was primarily due to our recovery of certain trade receivables, which we had made provisions for in previous periods. Our government grant increased significantly from RMB2 million in 2015 to RMB10 million in 2016, primarily due to the VAT refund we recognized since late 2015 for certain projects. Interest income decreased by 42.9% from RMB14 million in 2015 to RMB8 million in 2016, primarily due to a decrease in the interest rates on our bank deposits since late 2015, and a decrease in our time deposits in 2016. We incurred, as a result of changes in the exchanges rate of Renminbi against Japanese yen, foreign exchange losses of RMB4 million in 2016 on our JPY-denominated loan that we assumed to settle the bank borrowings of Boqi Environmental Engineering as a part of our Reorganization. Please see “History, Reorganization and Group Structure—Reorganization” for details on these JPY-denominated loans.

2015 Compared to 2014

Other losses decreased by 16.7% from RMB6 million in 2014 to RMB5 million in 2015, primarily attributable to an increase in our interest income, which was partially offset by increases in our provision of allowance for trade and notes receivables and a decrease in our investment income from financial products. Our interest income increased by 75.0% from RMB8 million in 2014 to RMB14 million in 2015, primarily due to an increase in our time bank deposits with higher interest rates. Our provision of allowance for trade and notes receivables increased by 31.6% from RMB19 million in 2014 to RMB25 million in 2015, as certain trade receivable were expected to be irrecoverable due to funding shortage of a particular customer and payment disputes with customers regarding certain projects. Investment income from financial products decreased from RMB2 million in 2014 to nil in 2015, because such wealth management product matured in 2014 and we discontinued our investment in these products after its maturity.

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Selling and Distribution Expenses

The following table sets forth a breakdown of our selling and distribution expenses for the periods stated.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB thousands)				
Staff cost	2,801	3,197	5,822	3,982	5,591
Entertainment expenses	1,222	2,110	3,488	1,627	2,993
Travel expenses	1,276	1,938	3,252	1,908	1,876
Office expenses	1,434	1,562	896	555	439
Shipping cost	213	518	564	273	308
Service expenses	362	306	379	120	154
Conference expenses	242	986	619	213	55
Advertising expenses	380	446	282	115	79
Bidding expenses	200	173	265	203	209
Others ⁽¹⁾	136	140	292	121	683
Total	<u>8,266</u>	<u>11,376</u>	<u>15,859</u>	<u>9,117</u>	<u>12,387</u>

Note:

(1) Consists primarily of labor protection expenses, rental expenses and certain share-based compensation.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Our selling and distribution expenses increased by 33.3% from RMB9 million for the nine months ended September 30, 2016 to RMB12 million for the nine months ended September 30, 2017, primarily attributable to increases in staff costs and entertainment expenses relating to selling and marketing activities. Staff costs relating to selling and marketing activities increased from RMB4 million for the nine months ended September 30, 2016 to RMB6 million for the nine months ended September 30, 2017, primarily resulting from increases in the number and the average compensation of our sales personnel. Entertainment expenses relating to selling and marketing activities increased from RMB2 million for the nine months ended September 30, 2016 to RMB3 million for the nine months ended September 30, 2017, primarily resulting from our increased selling and marketing activities, reflecting our increased efforts to expand our business into new industries and new geographic regions. Selling and distribution expenses increased, as a percentage of our total revenue, from 1.0% for the nine months ended September 30, 2016 to 1.5% for the nine months ended September 30, 2017.

2016 Compared to 2015

Our selling and distribution expenses increased by 45.5% from RMB11 million in 2015 to RMB16 million in 2016, primarily attributable to increases in our staff costs, entertainment expenses and travel expenses relating to selling and marketing activities. Our staff cost relating to selling and marketing activities increased from RMB3 million in 2015 to RMB6 million in 2016, primarily due to increases in both the number of and the average compensation for our sales and marketing personnel. Our entertainment expenses increased from RMB2 million in 2015 to RMB3 million in 2016, and our travel expenses relating to selling and marketing expenses increased from RMB2 million in 2015 to RMB3 million in 2016, primarily reflecting our increased marketing efforts. Selling and distribution costs increased, as a percentage of our revenue, from 0.8% in 2015 to 1.2% in 2016.

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2015 Compared to 2014

Our selling and distribution expenses increased by 37.5% from RMB8 million in 2014 to RMB11 million in 2015, primarily attributable to increases in our entertainment expenses, conference expenses, travel expenses and staff cost relating to selling and marketing activities, reflecting our increased marketing efforts in 2015. Selling and distribution costs represented 0.6% and 0.8% of our revenue in 2014 and 2015, respectively.

Administrative Expenses

The following table sets forth a breakdown of our administrative expenses for the periods stated.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB thousands)				
Staff cost	22,618	26,755	27,497	17,666	20,891
Rental expenses	8,233	8,513	9,177	6,218	6,951
Professional service expenses	2,533	2,312	6,454	5,377	7,998
Research and development cost	1,824	5,465	3,927	2,759	4,656
Guarantee expenses ⁽¹⁾	2,543	2,374	3,049	2,301	997
Transportation expenses	1,971	1,960	2,159	1,590	1,180
Office expenses	2,707	1,838	2,130	1,337	1,429
Depreciation	2,632	1,824	2,024	1,291	2,011
Amortization	2,037	1,863	1,880	1,414	1,200
Entertainment expenses	1,783	1,477	2,057	900	1,984
Share-based compensation expenses	—	—	1,454	792	2,074
Others ⁽²⁾	9,395	8,508	10,568	7,912	7,235
Total	<u>58,276</u>	<u>62,889</u>	<u>72,376</u>	<u>49,557</u>	<u>58,606</u>

Notes:

(1) Represents the expenses we paid for the guarantee of our JPY-denominated loans incurred for our Reorganization.

(2) Consists primarily of conference expense, freight expenses, miscellaneous tax expenses, bank charges and travel expenses.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Our administrative expenses increased by 18.0% from RMB50 million for the nine months ended September 30, 2016 to RMB59 million for the nine months ended September 30, 2017, primarily attributable to increases in staff cost, professional service expenses and research and development cost. The increase in staff costs was primarily due to increases in the number and the average compensation of our administrative personnel. The increase in professional service expenses was primarily attributable to an increase in auditing expenses. The increase in research and development expenses primarily reflected our increased research and development efforts.

2016 Compared to 2015

Our administrative expenses increased by 14.3% from RMB63 million in 2015 to RMB72 million in 2016, primarily attributable to an increase in professional service expenses. Our professional service expenses increased from RMB2 million in 2015 to RMB6 million in 2016, primarily due to increased services received regarding our Reorganization and the Global Offering. Administrative expenses increased, as a percentage of our revenue, from 4.7% in 2015 to 5.3% in 2016.

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2015 Compared to 2014

Our administrative expenses increased by 8.6% from RMB58 million in 2014 to RMB63 million in 2015, primarily attributable to increases in research and development cost and staff cost, which were partially offset by decreases in office expenses and depreciation. The increase in our research and development cost primarily reflected our increased research efforts and development. The increase in our staff cost was primarily due to increases in both the number and the average compensation of our administrative and management personnel. Administrative expenses remained stable, as a percentage of our revenue, at 4.7% in 2014 and 2015.

Finance Costs

Finance costs consist of interest expenses on bank borrowings.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Our finance costs increased by 25.0% from RMB4 million for the nine months ended September 30, 2016 to RMB5 million for the nine months ended September 30, 2017, primarily attributable to interest expenses on our working capital loan incurred towards the end of 2016, which we fully repaid in March 2017. Finance costs increased, as a percentage of our total revenue, from 0.4% for the nine months ended September 30, 2016 to 0.6% for the nine months ended September 30, 2017.

2016 Compared to 2015

Our finance costs decreased by 12.5% from RMB8 million in 2015 to RMB7 million in 2016, primarily due to a decrease in the interest rates on our bank borrowings due to a decrease in the benchmark interest rate, and a decrease in the balance of our project finance loan for our BOT project resulting from our continued repayment. Finance costs decreased, as a percentage of revenue, from 0.6% in 2015 to 0.5% in 2016.

2015 Compared to 2014

Our finance costs decreased by 11.1% from RMB9 million in 2014 to RMB8 million in 2015, primarily due to a decrease in our interest-bearing bank borrowings. Finance costs decreased as a percentage of revenue from 0.7% in 2014 to 0.6% in 2015.

Change in Fair Value of Convertible Ordinary Shares

Our Class B Shares and Class C Shares as financial liabilities are carried on our consolidated statement of financial position at fair value, the change of which is recognized in our statement of profit or loss. We incurred fair value losses of RMB128 million for the nine months ended September 30, 2017 as a result of an increase in the fair value of Class B Shares and Class C Shares. Such fair value losses arose solely from the increase in the fair value of our Class B Shares and Class C Shares, and did not reflect negatively on our operations and profitability. We did not incur any cash outflow as a result of such fair value losses.

Income Tax

Certain of our subsidiaries entitle to preferential income tax rate of 15% as “high-end new technology enterprises”, and some of our other subsidiaries entitle three-year tax holiday followed by a

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three-year 50% tax rate reduction as their operations fall within certain qualified environmental protection and energy conservation sectors as defined by the PRC Government. Other subsidiaries are subject to an income tax rate of 25% pursuant to PRC taxation law. During the Track Record Period and as of the Latest Practicable Date, we were not subject to any Cayman Island taxation.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Our income tax expense decreased by 23.5% from RMB34 million for the nine months ended September 30, 2016 to RMB26 million for the nine months ended September 30, 2017, primarily due to the non-recurring withholding tax on dividends declared before the Group Reorganization that was paid during the nine months ended September 30, 2016 by our subsidiary, Beijing Shengyi, and the preferential tax treatment for which one of our subsidiaries became eligible since late 2016. Our effective income tax rate increased from 27.0% for the nine months ended September 30, 2016 to 72.2% for the nine months ended September 30, 2017, primarily due to the fair value losses we incurred on our Class B Shares and Class C Shares for the nine months ended September 30, 2017, which were excluded from the deductible expenses in the calculation of our taxable income.

2016 Compared to 2015

Our income tax expense increased by 10.8% from RMB37 million in 2015 to RMB41 million in 2016, primarily due to the withholding tax on the dividends paid by our subsidiary, Beijing Shengyi, to our Company in 2016, as well as an increase in our profit subject to income tax. Our effective tax rate was 21.1% and 21.2% in 2015 and 2016, respectively. The increase in the effective tax rate was primarily due to the withholding tax paid in 2016.

2015 Compared to 2014

Our income tax expense increased by 42.3% from RMB26 million in 2014 to RMB37 million in 2015, primarily due to an increase in expenses relating to our Reorganization which was not tax-deductible and an increase in our taxable profit before tax. Our effective tax rate was 20.0% and 21.1% in 2014 and 2015, respectively.

Profit for the Year/Period

Our net profit increased by 32.7% from RMB104 million in 2014 to RMB138 million in 2015, primarily due to an increase in our gross profit. Our net profit increased by 10.1% from RMB138 million in 2015 to RMB152 million in 2016, largely attributable to our other income and other gains and losses, which was in turn primarily attributable to the reversal of our allowance for trade receivables.

Primarily as a result of the fair value losses on our Class B Shares and Class C Shares, our net profit decreased by 89.1% from RMB92 million for the nine months ended September 30, 2016 to RMB10 million for the nine months ended September 30, 2017. Excluding the fair value losses on our Class B Shares and Class C Shares, our net profit would have increased to RMB138 million for the nine months ended September 30, 2017 compared to RMB92 million ended September 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal use of cash has been for funding our business operations. Historically, we have funded our operations primarily with cash generated from our operating activities. Our cash and cash

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equivalents amounted to RMB470 million at September 30, 2017, most of which was denominated in Renminbi. Our cash and cash equivalents consists primarily of cash on hand and bank deposits. In addition, as of January 31, 2018, we have unused bank facilities of RMB620 million.

We currently do not expect that there will be any material change in the sources and use of cash in the future, except that we will have additional funds from the proceeds of the Global Offering to fund our operations. For details on our plans for the use of the proceeds, please see “Future Plans and Use of Proceeds—Use of Proceeds”. We do not expect to use our currently available funding sources on the proposed use of our proceeds from the Global Offering.

We seek to manage our working capital and liquidity by monitoring the collection and deployment of our funds. We prepare an annual budget and cash flow projection to forecast and manage our cash inflows and outflows. We seek to manage the level of our liquid assets to ensure the availability of sufficient cash flows to meet any unexpected cash requirements arising from our business. Furthermore, we intend to continue to utilize existing capital, and to utilize the net proceeds from the Global Offering, to increase our liquidity and capital resources.

Working Capital

Taking into account the financial resources available to us (including our cash and cash equivalents on hand, cash generated from operations and available facilities) and the estimated net proceeds from the Global Offering, and after diligent and careful investigation, our Directors are of the opinion that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this prospectus.

Analysis of Cash Flow

The following table sets forth certain information about our consolidated cash flows for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,	
	2014	2015	2016	2016 (unaudited)	2017
	(RMB millions)				
Net cash generated by/(used in) operating activities	251	171	110	(13)	72
Net cash generated by/(used in) investing activities	61	(35)	(318)	(157)	66
Net cash (used in)/generated by financing activities	(78)	(139)	28	(60)	(2)
Net increase/(decrease) in cash and cash equivalents	<u>234</u>	<u>(3)</u>	<u>(180)</u>	<u>(230)</u>	<u>136</u>

Net Cash from Operating Activities

Cash used in operating activities primarily represent cash used in our operations for the purposes of purchases of equipment and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits and other fees and expenses, and tax payments. The cash generated from our operating activities was mainly the cash that we received from our customers for environmental protection products and services provided by us.

Our net cash generated by operating activities was RMB72 million for the nine months ended September 30, 2017, consisting of cash generated from operations of RMB93 million, partially offset by

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income taxes paid of RMB21 million. Our operating cash inflows before movements in working capital was RMB179 million for the nine months ended September 30, 2017. The negative adjustment for movements in working capital of RMB86 million was primarily attributable to a decrease in trade and notes payables of RMB80 million as a result of our settlement of these payables, and an increase in amounts due from related parties of RMB59 million as a result of an increase in amounts due from a related party for our O&M services provided, which were partially offset by a decrease in trade and notes receivables of RMB93 million as a result of settlement by our customers.

Our net cash generated from operating activities was RMB110 million in 2016, consisting of cash generated from operations of RMB167 million and income taxes paid of RMB57 million. Our operating cash inflows before movements in working capital was RMB210 million in 2016. The negative adjustment for movements in working capital of RMB43 million was primarily attributable to an increase in trade and notes receivables of RMB85 million as a result of our customers' prolonged settlement period and our recognition of revenue for certain major EPC projects towards the end of 2016, a decrease in trade and notes payables of RMB40 million as a result of our settlement of these payables, and an increase in amounts due from related parties of RMB18 million as a result of our revenue recognition in line with the construction progress of one of our EPC projects, which were partially offset by a decrease in amounts due from customers for contract work of RMB58 million in line with our billing progress and an increase in other payables, deposits received and accrued expenses of RMB53 million resulting from increases in our accrued expenses and advances from customers.

Our net cash generated from operating activities was RMB171 million in 2015, consisting of cash generated from operations of RMB212 million and income taxes paid of RMB41 million. Our operating cash inflows before movements in working capital was RMB209 million in 2015. The positive adjustment for movements in working capital of RMB3 million was primarily attributable to an increase in trade and notes payables of RMB78 million, a decrease in amounts due from customers for contract work of RMB27 million in line with our billing progress, and a decrease in prepayments, deposits and other receivables of RMB23 million resulting from decreases in prepayments for project construction costs and project equipment purchase and prepayment for construction outsourcing fees, which were partially offset by a decrease in other payables, deposits received and accrued expenses of RMB105 million due to the prepayments we received from customers for certain projects started towards the end of 2014 and an increase of RMB52 million in trade and notes receivables.

Our net cash generated from operating activities was RMB251 million in 2014, consisting of cash generated from operations of RMB272 million and income taxes paid of RMB21 million. Our operating cash inflows before movements in working capital in 2014 was RMB173 million. The positive adjustment for movements in working capital of RMB99 million was primarily attributable to an increase in trade and notes payables of RMB109 million, an increase in other payables, deposits received and accrued expenses of RMB92 million resulting from an increase in the number of our projects under construction, and a decrease in prepayments, deposits and other receivables of RMB47 million, which was partially offset by an increase in amounts due from customers for contract work of RMB111 million in line with construction progress of our projects under construction.

Net Cash from Investing Activities

Cash flow from investing activities consists primarily of placement and withdrawal of pledged bank deposits.

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Our net cash generated from investing activities was RMB66 million for the nine months ended September 30, 2017, consisting primarily of withdrawal of pledged bank deposits of RMB440 million and the refund of deposits of RMB136 million for the proposed acquisition of certain environmental protection facilities upon the termination of the proposed acquisition, which were partially offset by placement of pledged bank deposits of RMB187 million, and advances to related parties of RMB140 million primarily attributable to the performance guarantee we paid for our new O&M project, and cash paid for the purchase of intangible assets and costs capitalized under service concession arrangements of RMB181 million.

Our net cash used in investing activities was RMB318 million in 2016, consisting primarily of placement of pledged bank deposits of RMB574 million, our payment of deposits of RMB136 million for the proposed acquisition of certain environmental protection facilities (which was subsequently returned to us upon the termination of the proposed acquisition), and cash paid on purchase of intangible assets and costs capitalized under service concession arrangements of RMB117 million, which were partially offset by cash generated from withdrawal of pledged bank deposits of RMB491 million.

Our net cash used in investing activities was RMB35 million in 2015, consisting primarily of a placement of pledged bank deposits of RMB248 million and a payment of RMB70 million to acquire intangible assets and costs capitalized under service concession arrangements, which were partially offset by a withdrawal of RMB217 million of pledged bank deposits.

Our net cash generated from investing activities was RMB61 million in 2014, consisting primarily of a withdrawal of pledged bank deposits of RMB197 million and the proceeds of RMB49 million from the redemption of available-for-sale investments which we purchased in 2014, which were partially offset by a placement of pledged bank deposits of RMB179 million.

Net Cash from Financing Activities

Our cash used in financing activities was for the repayment of bank borrowings and interest payments. Our cash generated from financing activities consists of proceeds from cash received from the issuance of our Class C Shares and purchase of non-controlling interests

Our net cash used in financing activities was RMB2 million for the nine months ended September 30, 2017, consisting primarily of repayment of bank borrowings of RMB279 million, which was partially offset by proceeds raised from cash received from our issuance of our Class C Shares of RMB280 million.

Our net cash generated from financing activities was RMB28 million in 2016, consisting primarily of proceeds of RMB270 million raised from new bank borrowings, which were partially offset by deemed distribution to a shareholder of RMB130 million relating to our Reorganization and dividends paid of RMB85 million.

Our net cash used in financing activities was RMB139 million in 2015, consisting primarily of RMB67 million dividends paid and RMB45 million repayment of bank borrowings.

Our net cash used in financing activities was RMB78 million in 2014, consisting primarily of RMB104 million repayment of bank borrowings, which was partially offset by our proceeds from new bank borrowings of RMB30 million.

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Net Current Assets

The tables below present our current assets and current liabilities at the dates indicated.

	At December 31,			At	At
	2014	2015	2016	September 30, 2017	December 31, 2017 (unaudited)
	(RMB millions)				
Current assets					
Receivable under service concession arrangement-current	—	—	—	16	24
Inventories	53	31	22	36	25
Amounts due from customers for contract work	204	176	118	105	92
Trade and notes receivables	609	637	733	643	667
Prepayments, deposits and other receivables	101	78	78	112	75
Amounts due from related parties	60	25	44	102	70
Pledged bank deposits	178	209	292	39	54
Bank balances and cash	530	527	348	470	689
Total current assets	1,735	1,683	1,635	1,523	1,696
Current liabilities					
Trade and notes payables	657	734	694	613	722
Other payables, deposits received and accrued expenses	276	171	224	432	406
Amounts due to customers for contract work	17	24	16	31	28
Income tax payable	28	34	21	16	17
Other tax liabilities	9	30	27	20	32
Bank borrowings—current	45	20	296	20	100
Amounts due to related parties	16	8	—	3	6
Total current liabilities	1,048	1,021	1,278	1,135	1,311
Net current assets	687	662	357	388	385

Our net current assets remained effectively stable at RMB385 million at December 31, 2017 compared to RMB388 million at September 30, 2017.

Our net current assets increased by 8.7% from RMB357 million at December 31, 2016 to RMB388 million at September 30, 2017, primarily attributable to a decrease in the current portion of our bank borrowings and an increase in bank balances and cash, which were partially offset by a decrease in pledged banks deposits and an increase in other payables, deposits received and accrued expenses.

Our net current assets decreased by 46.1% from RMB662 million at December 31, 2015 to RMB357 million at December 31, 2016, primarily due to an increase in the current portion of our bank borrowings and a decrease in bank balances and cash, which were partially offset by increases in trade and notes receivables and pledged bank deposits and a decrease in trade and notes payables.

At December 31, 2014 and 2015, our net current assets remained effectively stable at RMB687 million and RMB662 million, respectively.

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Trade and Notes Receivables

Our trade and notes receivables represent receivables for sale of goods and rendering of services. The following table shows the breakdown of our trade and notes receivables as at the dates indicated.

	At December 31,			At September 30,
	2014	2015	2016	2017
	(RMB millions)			
Trade receivables	489	559	687	657
Notes receivables	168	144	95	32
Less: allowance for doubtful debts	(48)	(66)	(49)	(46)
	609	637	733	643

Our trade and note receivables decreased by 12.3% from RMB733 million at December 31, 2016 to RMB643 million at September 30, 2017, primarily attributable to a decrease in our note receivables, and, to a lesser extent, a decrease in our trade receivables. Notes receivables decreased from RMB95 million at December 31, 2016 to RMB32 million at September 30, 2017, primarily due to our endorsement of bill exchange to our suppliers as a payment method. Trade receivables decreased from RMB687 million at December 31, 2016 to RMB657 million at September 30, 2017, primarily reflecting our increased collection efforts for our trade receivables.

Our trade and notes receivables increased by 15.1% from RMB637 million at December 31, 2015 to RMB733 million at December 31, 2016, primarily due to an increase in our trade receivables, which was partially offset by a decrease in our note receivables. Our trade receivables increased from RMB559 million at December 31, 2015 to RMB687 million at December 31, 2016, primarily resulting from the completion of, and our recognition of revenue for, certain major EPC projects towards the end of 2016, as well as the relatively long internal clearance and approval and external audit procedures required for our customers to settle these receivables with us. Our notes receivables decreased from RMB144 million at December 31, 2015 to RMB95 million at December 31, 2016, primarily due to our endorsement of bill exchange to our suppliers as a payment method.

Our trade and notes receivables remained effectively stable at RMB609 million and RMB637 million at December 31, 2014 and 2015, respectively, primarily due to an increase in our trade receivables, which was partially offset by a decrease in our note receivables. Our trade receivables increased from RMB489 million at December 31, 2014 to RMB559 million at December 31, 2015, primarily reflecting our overall business growth. Our notes receivables decreased from RMB168 million at December 31, 2014 to RMB144 million at December 31, 2015, primarily due to our endorsement of bill exchange to our suppliers.

We grant an average credit period of 30 to 90 days to our customers. We generally consider the customer's creditworthiness, financial conditions and payment history with us when determining the credit period granted to such customer. Our trade receivables relate to a number of independent customers that have a good track record with us, substantially all of which are large state-owned enterprises or listed companies. Our management assess all our trade receivables individually as to their aging conditions and collectability. We believe that the allowance provided is sufficient in respect of these balances as there has not been a significant change in credit risk and the net carrying value of our trade receivables is considered fully recoverable.

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The following table sets forth the aging analysis, based on the invoice dates, of our trade and notes receivables, excluding retention receivables that were retained by our customers as quality guarantee.

	At December 31,			At
	2014	2015	2016	September 30, 2017
	(RMB millions)			
1-90 days	244	239	315	163
91-180 days	101	111	90	61
181-365 days	26	4	80	128
1-2 years	56	31	25	69
2-3 years	10	19	—	12
Over 3 years	5	7	—	—
Total	442	411	510	433

The following table sets forth the aging analysis, based on the invoice dates, of our trade and notes receivables for our environmental protection facility engineering business, excluding retention receivables that were retained by our customers as quality guarantee.

	At December 31,			At
	2014	2015	2016	September 30, 2017
	(RMB millions)			
1-90 days	161	115	173	30
91-180 days	47	82	77	25
181-365 days	15	1	59	100
1-2 years	47	29	23	65
2-3 years	10	18	—	12
Over 3 years	1	3	—	—
Total	281	248	332	232

The following table sets forth the aging analysis, based on the invoice dates, of our trade and notes receivable for our operation and maintenance business, excluding retention receivables that were retained by our customers as quality guarantee.

	At December 31,			At
	2014	2015	2016	September 30, 2017
	(RMB millions)			
1-90 days	36	67	68	40
91-180 days	47	16	10	28
181-365 days	10	—	5	22
1-2 years	9	—	1	—
Total	102	83	84	90

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The following table sets forth the aging analysis, based on the invoice dates, of our trade and notes receivable for our concession operation business, excluding retention receivables that were retained by our customers as quality guarantee.

	At December 31,			At
	2014	2015	2016	September 30, 2017
	(RMB millions)			
1-90 days	46	42	67	93
91-180 days	7	10	2	8
181-365 days	—	1	1	6
Total	53	53	70	107

We had approximately RMB48 million, RMB60 million, RMB89 million and RMB132 million of trade receivables past due for over one year but not impaired at December 31, 2014, 2015 and 2016 and September 30, 2017, respectively. This is not uncommon in the PRC environmental protection facility engineering market, in light of the fact that large customers may not settle the outstanding receivable balances on a timely basis due to their internal clearance and approval and external audit procedures. We have promulgated strict systems and performance review standards relating to the management of our trade and notes receivables, and our management analyzes and monitors the recoverability of our overdue trade and notes receivables on a regular basis. The increase in our trade and notes receivables past due for over one year but not impaired in the first nine months of 2017 was primarily due to the completion of, and our recognition of revenue for, certain major EPC projects in 2016. At December 31, 2014, 2015 and 2016 and September 30, 2017, RMB167 million, RMB226 million, RMB223 million and RMB210 million, respectively, of our trade receivables were retention receivables retained by our customers as quality guarantee, which were payable in one to two years.

The following table sets forth our overall trade and notes receivable turnover days and the trade and notes receivable turnover days for our major business segments for the periods indicated.

	For the year ended December 31,			For the nine months ended
	2014	2015	2016	September 30, 2017
Trade and notes receivable turnover days ⁽¹⁾	180	168	185	235
Environmental protection facility engineering ⁽¹⁾	216	212	247	515
Operation and maintenance ⁽¹⁾	122	113	129	80
Concession operation ⁽¹⁾	113	78	71	109

Note:

(1) Receivable turnover days has been calculated by dividing the days in the relevant period by the receivables turnover ratio (which is determined by dividing total revenue by average trade and notes receivables at the beginning and end of the relevant period in the case of 2015 and 2016 and the nine months ended September 30, 2017 or the closing balance of trade and notes receivables in the case of 2014). For the purposes of this calculation, we have used 365 days for the financial years ended December 31, 2014 and 2015, 366 days for the year ended December 31, 2016 and 273 days for the nine months ended September 30, 2017.

The decrease in our trade and notes receivable turnover days in 2015 was primarily a result of our increased collection efforts. The increase in trade and notes receivable turnover days in 2016 and the nine months ended September 30, 2017 primarily resulted from the completion of and our recognition of revenue for certain major EPC projects towards the end of 2016 and the relatively long period of time required for our customers to conduct internal clearance and approval procedures to settle these receivables with us. The significant increase in the turnover days for our trade and notes

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receivables under our environmental protection facility engineering business was primarily due to (i) a decrease in our revenue from the business segment, and (ii) the concentration of our collection of receivables around year ends. During the Track Record Period, our trade and notes receivable turnover days remained substantially longer than the average credit period we granted to our customers, primarily because substantially all of our customers are large state-owned enterprises or publicly listed companies, which may not settle their outstanding balances with us on a timely manner due to their internal clearance and approval procedures, and because our trade and notes receivables include retention receivables with retention periods normally lasting for one to two years. As of January 31, 2018, RMB275 million, or 42.8% of our trade and notes receivables at September 30, 2017 was settled.

Pledged Bank Deposits

Our pledged bank deposits consist primarily of deposits pledged to banks to secure banks' guarantees for our overseas borrowings and other short-term bank borrowings, letter of credits and facilities. Our pledged bank deposits amounted to RMB178 million, RMB209 million, RMB292 million and RMB39 million at December 31, 2014, 2015 and 2016 and September 30, 2017, respectively. Changes in the pledged bank deposits mainly reflect the changes in our demand for banks' guarantees. The decrease in our pledged bank deposits during the nine months ended September 30, 2017 was primarily due to our repayment of our USD- and JPY-denominated loans and the release of the relevant guarantees, which were secured by pledged bank deposits.

Amounts Due from Customers for Contract Work

Our amounts due from customers for contract work decreased by 11.0% from RMB118 million at December 31, 2016 to RMB105 million at September 30, 2017, in line with the construction progress of our environment protection facilities engineering projects.

Our amounts due from customers for contract work decreased by 13.7% from RMB204 million at December 31, 2014 to RMB176 million at December 31, 2015, which further decreased by 33.0% to RMB118 million at December 31, 2016, in line with our billing progress under a number of projects upon the payment milestones.

As of January 31, 2018, RMB78 million, or 74.3% of our amounts due from customers for contract work at September 30, 2017 had been billed to our customers.

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Prepayments, Deposits and Other Receivables

The following table shows the breakdown of our prepayments, deposits and other receivables at the dates indicated.

	At December 31,			At September 30,
	2014	2015	2016	2017
	(RMB millions)			
Project bidding bonds and other deposits	37	36	44	40
Prepayments for project construction costs and project equipment purchase . . .	29	22	9	49
Prepayment for construction outsourcing fees	23	11	10	10
Prepaid tax	6	7	11	6
Deferred listing costs	—	—	3	6
Others	8	4	2	2
	103	80	79	113
Less: impairment losses on other receivables	(2)	(2)	(1)	(1)
	101	78	78	112

Our prepayments, deposits and other receivables increased by 43.6% from RMB78 million at December 31, 2016 to RMB112 million at September 30, 2017, primarily due to an increase in prepayments for project construction costs and project equipment purchase. Prepayments for project construction cost and project equipment purchase increased significantly from RMB9 million at December 31, 2016 to RMB49 million at September 30, 2017, primarily attributable to our advance of payments to subcontractors and equipment suppliers resulting from our increased purchases for our new projects, which were to be settled with our customers in later stages.

Our prepayments, deposits and other receivables remained stable at RMB78 million at December 31, 2015 and 2016, primarily due to increases in project bidding bonds and other deposits, prepaid tax and deferred listing cost, which were largely offset by a decrease in prepayments for project construction costs and project equipment purchase. Project bidding bonds and other deposits increased from RMB36 million at December 31, 2015 to RMB44 million at December 31, 2016, primarily due to the relatively high amount of bidding bonds required for certain major projects that we bid for in 2016. Prepayments for project construction costs and project equipment purchase decreased from RMB22 million at December 31, 2015 to RMB9 million at December 31, 2016, primarily due to the completion of settlement towards the end of 2016 for both projects from previous periods and new projects completed during 2016.

Our prepayments, deposits and other receivables decreased by 22.8% from RMB101 million at December 31, 2014 to RMB78 million at December 31, 2015, primarily due to our prepayments for construction costs and equipment purchases and prepaid construction outsourcing fees resulting from certain large-scaled projects, the construction of which commenced towards the end of 2014.

Amounts Due from Related Parties

Our amounts due from related parties consist primarily of amounts due from related parties for EPC services and O&M services we provided and dividends declared to us by associates.

The current portion of our amounts due from related parties increased significantly from RMB44 million at December 31, 2016 to RMB102 million at September 30, 2017, primarily attributable to an increase in amounts due from a related party for our O&M services provided.

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The current portion of our amounts due from related parties increased by 76.0% from RMB25 million at December 31, 2015 to RMB44 million at December 31, 2016, primarily attributable to amounts due from a related party for our EPC services provided.

The current portion of our amounts due from related parties decreased by 58.3% from RMB60 million at December 31, 2014 to RMB25 million at December 31, 2015, primarily due to our receipt of the amounts due from a related party in 2015.

At December 31, 2014, 2015 and 2016 and September 30, 2017, RMB78 million, RMB19 million, RMB20 million and RMB158 million, respectively, of our amounts due from related parties were of non-trade natures, of which RMB60 million, nil, RMB1 million and nil, respectively, was recognized as current assets. We plan to settle all our amounts due from related parties of non-trade nature at September 30, 2017 before our Listing, except for the amount of RMB140 million due from Yangxi Electric, which we paid as performance guarantee for our performance of our obligations under the Yangxi Agreements.

Inventories

The following table sets forth a breakdown of our inventories at the date indicated.

	At December 31,			At September 30,
	2014	2015	2016	2017
	(RMB millions)			
Equipment, supplies and spare parts	55	33	23	37
Allowance for inventory	(2)	(2)	(1)	(1)
	53	31	22	36

Our inventory increased by 63.6% from RMB22 million at December 31, 2016 to RMB36 million at September 30, 2017, primarily attributable to the equipment we purchased for our new BOT project in 2017. Our inventory decreased by 29.0% from RMB31 million at December 31, 2015 to RMB22 million at December 31, 2016, primarily due to our decreased level of inventories as a result of an increase in our “ultra-low emission” upgrade projects, which have relatively short construction cycles, as a percentage of our total EPC projects. Our inventory decreased by 41.5% from RMB53 million at December 31, 2014 to RMB31 million at December 31, 2015, primarily due to a decrease in equipment, supplies and spare parts (before the provision of allowance for inventories) from RMB55 million at December 31, 2014 to RMB33 million at December 31, 2015 resulting from our enhanced inventory management.

As of January 31, 2018, RMB23 million, or 63.9% of our inventories at September 30, 2017 had been utilized.

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Trade and Notes Payables

Trade and notes payables consists of the amounts due to our suppliers and subcontractors. The following table sets forth a breakdown of our trade and notes payables at the dates indicated.

	At December 31,			At September 30,
	2014	2015	2016	2017
	(RMB millions)			
Trade payables	651	678	641	567
Notes payables	6	56	53	46
	657	734	694	613

Our trade and notes payables decreased by 5.4% from RMB734 million at December 31, 2015 to RMB694 million at December 31, 2016, which further decreased by 11.7% to RMB613 million at September 30, 2017, primarily due to our settlement with suppliers and subcontractors.

Our trade and notes payables increased by 11.7% from RMB657 million at December 31, 2014 to RMB734 million at December 31, 2015, primarily due to our overall business growth.

The following table sets forth our trade and notes payable turnover days for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,
	2014	2015	2016	2017
Trade and notes payables turnover days ⁽¹⁾	212	230	238	307

Note:

(1) Payable turnover days has been calculated by dividing the days in the relevant period by the payable turnover ratio (which is determined by dividing our cost of sales by average trade or notes payables at the beginning and end of the relevant period). For the purposes of this calculation, we have used 365 days for the financial years ended December 31, 2014 and 2015, 366 days for the year ended December 31, 2016 and 273 days for the nine months ended September 30, 2017.

Our trade and notes payable turnover days for the years ended December 31, 2014, 2015 and 2016 were relatively stable, which were 212 days, 230 days and 238 days, respectively. Our trade and notes payable turnover days increased to 307 days for the nine months ended September 30, 2017, primarily because we usually settle our trade and notes payables around year ends.

As of January 1, 2018, RMB115 million, or 20.3% of our trade payables at September 30, 2017 was settled.

Other Payables, Deposits Received and Accrued Expenses

Other payables, deposits received and accrued expenses consist of advance from customers, accrued expenses, accrued liabilities and accrued wages and benefits.

Advance from customers represent the amounts advanced to us by our customers pursuant to the project contracts.

Accrued expenses primarily represent the accrued construction and equipment purchase costs that are unpaid due to incompleteness of settlement procedures with our suppliers or subcontractors.

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Accrued liabilities primarily represent the expected loss we recognize when it is probable that total contract costs will exceed total contract revenue. For details on our historical loss-making projects and related risks, please see “We have experienced loss-making EPC projects in the past, and may undertake loss-making EPC projects in the future.”

The table below sets out a breakdown of other payables, deposits received and accrued expenses at the dates indicated.

	At December 31,			At September 30,
	2014	2015	2016	2017
	(RMB millions)			
Advance from customers	171	47	69	107
Accrued expenses	10	21	58	34
Accrued liabilities	58	53	43	33
Accrued payroll and welfare	24	23	32	22
Payables for obtaining service concession arrangement	—	—	—	218
Others	13	27	22	18
	276	171	224	432

Our other payables, deposits received and accrued expenses almost doubled from RMB224 million at December 31, 2016 to RMB432 million at September 30, 2017, primarily attributable to an increase in payables for obtaining service concession arrangement from nil at December 31, 2016 to RMB218 million at September 30, 2017, reflecting the remaining amounts to be paid for our acquisition of a concession operation project, which was transferred to us prior to September 30, 2017.

Our other payables, deposits received and accrued expenses increased by 31.0% from RMB171 million at December 31, 2015 to RMB224 million at December 31, 2016, primarily attributable to increases in accrued expenses and advance from customers. Accrued expenses increased from RMB21 million at December 31, 2015 to RMB58 million at December 31, 2016, primarily due to our provisions made for certain subcontractors’ cost resulting from the completion of several EPC projects in 2016. Advance from customers increased from RMB47 million at December 31, 2015 to RMB69 million at December 31, 2016, primarily due to the advance we received from customers upon the commencement of new EPC projects in 2016.

Our other payables, deposits received and accrued expenses decreased by 38.0% from RMB276 million at December 31, 2014 to RMB171 million at December 31, 2015, primarily attributable to a decrease in advance from customers from RMB171 million at December 31, 2014 to RMB47 million at December 31, 2015 as a result of our receipt of prepayments from customers for certain projects that started towards the end of 2014.

Bank Borrowings

The current portion of our current bank borrowings consist of our bank borrowings bearing floating interest rates.

The current portion of our current bank borrowings decreased significantly from RMB296 million at December 31, 2016 to RMB20 million at September 30, 2017, primarily due to our repayment of our USD- and JPY-denominated loans and certain RMB-denominated working capital

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loans. The current portion of our bank borrowings increased significantly from RMB20 million at December 31, 2015 to RMB296 million at December 31, 2016, primarily attributable to our JPY-denominated bank borrowing we incurred to settle the bank borrowings of Boqi Environmental Engineering as part of our Reorganization, our RMB-denominated working capital loan and our USD-denominated borrowings to pay for certain expense relating to the Global Offering. The current portion of our bank borrowings decreased by 55.6% from RMB45 million at December 31, 2014 to RMB20 million at December 31, 2015, primarily reflecting our relatively abundant cash. For details on our settlement for the JPY-denominated bank borrowings of Boqi Environmental Engineering, please see “History, Reorganization and Group Structure—Reorganization”.

INDEBTEDNESS

Borrowings

At December 31, 2017, being the latest practicable date for determining our indebtedness, our bank borrowings amounted to RMB127 million. At January 31, 2018, our total bank facilities amounted to RMB927 million, of which RMB307 million was used for bank borrowings, bank acceptances or letters of guarantees, and RMB620 million was undrawn and unrestricted. Our Directors confirm that we will be able to utilize these bank facilities by following the customary procedures of the relevant lending banks.

The following table shows our borrowings at the dates indicated, which were all unguaranteed.

	At December 31,			At	At
	2014	2015	2016	September 30,	December 31,
				2017	2017
	(RMB millions)				
Long-term interest-bearing borrowings					
Bank loans					
- Secured	34	29	19	19	11
- Unsecured	68	58	48	48	116
Less: Current portion of long-term borrowings	(15)	(20)	(20)	(20)	(100)
Total non-current borrowings	<u>87</u>	<u>67</u>	<u>47</u>	<u>47</u>	<u>27</u>
Short-term interest-bearing borrowings					
Bank loans					
- Secured	—	—	176	—	—
- Unsecured	30	—	100	—	—
Current portion of long-term borrowings	15	20	20	20	100
Total current borrowings	<u>45</u>	<u>20</u>	<u>296</u>	<u>20</u>	<u>100</u>
Total borrowings	<u>132</u>	<u>87</u>	<u>343</u>	<u>67</u>	<u>127</u>

The effective interest rates per annum on our bank borrowings are as follows.

	At December 31,			At	At
	2014	2015	2016	September 30,	December 31,
				2017	2017
Bank loans	5.54% - 6.30%	4.41% - 5.88%	1.66% - 4.57%	1.66% - 4.57%	1.68% - 4.79%

During the Track Record Period, no bank has withdrawn any of the bank facilities previously extended to us or has demanded early repayment. Given our ability to access to new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of

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bank facilities, early repayment of outstanding loans or increase in amount of pledged deposits for secured bank borrowings. As of the Latest Practicable Date, we have not received any requests for early repayment of the principal and/or interests on any of our loan agreements.

The table below sets forth the maturity profiles of our bank borrowings at the dates indicated.

	At December 31,			At	At
	2014	2015	2016	September 30, 2017	December 31, 2017
	(RMB millions)				
Within 1 year	45	20	296	20	100
More than 1 year, but not exceeding 2 years	20	20	20	20	15
More than 2 years, but not more than 5 years	55	47	27	27	12
More than 5 years	12	—	—	—	—
	<u>132</u>	<u>87</u>	<u>343</u>	<u>67</u>	<u>127</u>

At December 31, 2014, 2015, 2016 and September 30, 2017, our gearing ratios were 13.0%, 8.1%, 33.7% and 8.3%, respectively.

Convertible Ordinary Shares

As of December 31, 2017, we had 125,000,000 outstanding Class B Shares and 194,376,362 outstanding Class C Shares with the principal amount of RMB221,853,600 and RMB323,750,000, respectively, which are unsecured and unguaranteed. As of September 30, 2017, the fair value of our Class B Shares and Class C Shares was RMB254 million and RMB395 million, respectively.

Contingent Liabilities and Guarantees

In July 2014 and January 2015, we provided guarantees to Han Chuan Long Yuan, an associate of us, with a maximum credit limit of RMB45 million and RMB21 million, respectively, for its bank loans maturing in July 2021 and January 2022, respectively. We believe that the initial fair value of such guarantee is immaterial to us, and it is not probable that we will be required to make payments under such guarantees as Han Chuan Long Yuan has made repayments of these bank loans in accordance with the scheduled repayment dates. Except as disclosed above, as of December 31, 2017, we did not have any material outstanding guarantees or contingent liabilities.

Except as disclosed above and normal trade and other payables arising in our ordinary course of business, and apart from intra-group liabilities, we did not have, at December 31, 2017, any material outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance (other than normal trade bills) or acceptance bills or other similar indebtedness, hire purchase and finance lease commitments, guarantees or other material contingent liabilities. Our Directors confirm that there has been no material or significant change in our indebtedness since December 31, 2017.

COMMITMENTS

Our capital commitments outstanding but not provided for at the dates indicated below were as follows, all of which were contracted for at the respective dates.

	At December 31,			At
	2014	2015	2016	September 30, 2017
	(RMB millions)			
Construction of infrastructure under concession operations	43	39	38	136

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INTANGIBLE ASSETS

Our intangible assets consist of software, patents and trademarks, and service concession arrangements. The following table sets forth a breakdown of our intangible assets at the dates indicated.

	At December 31,			At
	2014	2015	2016	September 30, 2017
	(RMB millions)			
Service concession arrangements	280	324	412	424
Patents and trademarks	5	4	3	2
Software	1	1	1	1
Total	<u>286</u>	<u>329</u>	<u>416</u>	<u>427</u>

Our intangible assets increased by 15.0% from RMB286 million at December 31, 2014 to RMB329 million at December 31, 2015, which further increased to RMB416 million at December 31, 2016. Our intangible assets further increased to RMB427 million at September 30, 2017. The continued increase in our intangible assets was primarily attributable to an increase in concession rights resulting from an increase in the number of our BOT projects.

The table below set forth, for the periods indicated, the movement of our intangible assets.

	Software	Patents and trademarks	Service concession arrangements	Total
	(RMB thousands)			
At January 1, 2014	1,971	6,607	304,053	312,631
Additions	198	—	1,408	1,606
Disposals	(281)	—	—	(281)
Amortization:				
Charge for the year	(824)	(1,381)	(26,184)	(28,389)
Elimination on disposals	160	—	—	160
At December 31, 2014	1,224	5,226	279,277	285,727
Additions	238	52	70,747	71,037
Disposals	(211)	(300)	—	(511)
Amortization:				
Charge for the year	(372)	(1,400)	(26,226)	(27,998)
Elimination on disposals	209	300	—	509
At December 31, 2015	1,088	3,878	323,798	328,764
Additions	137	—	118,340	118,477
Amortization:				
Charge for the year	(376)	(1,406)	(29,856)	(31,638)
At December 31, 2016	849	2,472	412,282	415,603
Additions	—	—	36,809	36,809
Amortization:				
Charge for the period	(250)	(877)	(24,672)	(25,799)
At September 30, 2017	<u>599</u>	<u>1,595</u>	<u>424,419</u>	<u>426,613</u>

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Concession Rights

We review the carrying amounts of our intangible assets under concession arrangement, namely our concession rights, at the end of each reporting period to determine whether there is any indication that those assets have suffered an impairment loss and, if any indication of impairment exists, the recoverable amount of the intangible asset and the extent of impairment losses. For our intangible assets under concession arrangements, we estimate the recoverable amount based on the present value of our estimation of future cash flows from the operation of the concession operation projects. The table below sets forth a sensitivity analysis of the impact of variations in key assumptions, namely the estimated electricity generating hours and discount rate used to determine the present value, on the recoverable amount of our intangible asset under concession arrangements, where the headroom represents the excess of the recoverable amount over the carrying amount of the relevant intangible asset under concession arrangements.

	At December 31,						At September 30,	
	2014		2015		2016		2017	
	Recoverable amount	Headroom	Recoverable amount	Headroom	Recoverable amount	Headroom	Recoverable amount	Headroom
	(RMB millions)							
Change in electricity generating hours								
0	734	455	783	459	928	515	1,110	686
-5%	694	415	733	410	865	453	1,050	626
-10%	643	363	684	360	803	390	996	571
Change in discount rate								
0	734	455	783	459	928	515	1,110	686
+5%	709	430	759	435	902	490	1,077	653

At December 31, 2014, 2015 and 2016 and September 30, 2017, the recoverable amount for our intangible asset under concession arrangement was RMB734 million, RMB783 million, RMB928 million and RMB1,110 million respectively, which were higher than the carrying value of such intangible asset at the respective dates. Therefore, there was no impairment loss recognized on our intangible assets under concession arrangements, namely concession rights, during the Track Record Period.

RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENT

Our receivables under service concession arrangement represent the present value of the guaranteed minimum service fee from our concession operation project provided by our agreement with our customer. Our receivables under service concession arrangement amounted to RMB375 million at September 30, 2017, reflecting the commencement of operation of our concession operation project in September 2017, under which we are entitled to a guaranteed minimum income.

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The following table sets forth, for the period indicated, the movement of our receivables under service concession arrangement.

	<u>Receivables under service concession arrangement</u> (RMB millions)
At December 31, 2014, 2015 and 2016	—
Recognized upon the establishment of service concession arrangement	<u>375</u>
At September 30, 2017	<u><u>375</u></u>

OFF-BALANCE SHEET ARRANGEMENTS

Other than as disclosed in the prospectus, as of the Latest Practicable Date, we did not have any outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. In the course of our business operations, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

CAPITAL EXPENDITURE

During the Track Record Period, our capital expenditure was made primarily for the purchase of fixed assets and the construction of our BOT projects. Our capital expenditure was RMB24 million, RMB73 million, RMB121 million and RMB436 million for the year ended December 31, 2014, 2015, and 2016 and for the nine months ended September 30, 2017, respectively. We estimate our capital expenditure for the year ending December 31, 2017 and 2018 to be RMB475 million and RMB98 million, respectively, which will be used primarily for the construction of our concession operation projects and our strategic mergers and acquisitions. The table below sets forth a breakdown of our capital expenditures for the periods indicated.

	For the year ended December 31,			For the nine months ended September 30,
	2014	2015	2016	2017
	(RMB millions)			
Construction and acquisition of concession operation projects	1	71	118	412
Purchase of fixed assets	<u>23</u>	<u>2</u>	<u>3</u>	<u>24</u>
Total	<u><u>24</u></u>	<u><u>73</u></u>	<u><u>121</u></u>	<u><u>436</u></u>

RELATED PARTY TRANSACTIONS

With respect to related parties transactions as set out in Appendix I in the Accountants' Report attached to this prospectus, our Directors have confirmed that the transactions were conducted on normal commercial terms and entered into in the ordinary course of business.

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MARKET RISKS

Credit Risk

Our credit risk primarily arises from trade and notes receivables and other receivables. Our management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of the trade and notes receivables and other receivables, individual credit evaluations are performed on all customers. These evaluations focus on the customer's record of making payments when due and current payment abilities, together with the detailed information of the specific customer and the economic conditions regarding the industry in which the specific customer operates. We generally establish a collection team for each customer and require customers to settle progress billings and other debts in accordance with the terms of the agreements such customers have entered into. We make efforts to avoid any losses on our trade and notes receivables and other receivables. Credit terms may be granted to customers, depending on the nature of business. Normally, we does not acquire collateral from customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in our consolidated statements of financial position after deducting any impairment allowance.

Our reversal of allowances for trade receivables decreased by 50.0% from RMB6 million for the nine months ended September 30, 2016 to RMB3 million for the nine months ended September 30, 2017, primarily due to a decrease in our recovery of trade receivables that we had previously made provisions for. Our provision of allowances for trade and notes receivables was RMB25 million in 2015, while our reversal of allowances for trade and notes receivables was RMB11 million in 2016, primarily due to our recovery of certain trade receivables, which we had previously made provisions for. Our provision of allowance for trade receivables increased by 31.6% from RMB19 million in 2014 to RMB25 million in 2015, primarily due to a decrease in the expected recoverable amount of certain receivables resulting from funding shortage of a particular customer and payment disputes with customers regarding certain projects.

Liquidity Risk

We aim to ensure continuity of sufficient funding and flexibility by utilizing bank and other borrowings with various maturities. Thus, we are able to ensure that our outstanding borrowing obligation is not exposed to excessive repayment risk in any one year.

We had net current assets of RMB687 million, RMB662 million, RMB357 million and RMB388 million at December 31, 2014, 2015, and 2016 and September 30, 2017, respectively. With regards to our future capital commitments and other financing requirements, we have unutilized bank facilities of RMB620 million as of January 31, 2018.

Interest Rate Risk

Our interest rate risk arises primarily from our bank borrowings and deposits with floating interest rates. Borrowings issued at variable rates expose us to cash flow interest rate risk. At December 31, 2014, 2015, 2016 and September 30, 2017, it is estimated that a general increase (or decrease) of 50 basis points in interest rates of net floating borrowings, with all other variables held constant, our profits after tax would have increased (or decreased) (as the case may be) by

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approximately RMB2 million, RMB3 million, RMB2 and RMB1 million, respectively. We regularly review and monitor the mix of fixed and variable rate borrowings in order to manage its interest rate risks. During the Track Record Period, however, our management did not consider it is necessary to use interest rate swaps to hedge their exposure to interest.

Currency Risk

We are exposed to currency risk primarily through our bank deposits and borrowings that are denominated in foreign currencies. However, substantially all of our sales are currently made within the PRC and denominated in RMB. Our foreign currency-denominated sales represented only a small percentage of our total revenue during the Track Record Period. Our cost of sales is also generally denominated in RMB, and accordingly, we have minimal exposure to currency risk from our operations.

In respect of bank deposits and borrowings, cash on hand, receivables and payables denominated in foreign currencies, we consider that we do not have any material exposure to foreign currency risks. We did not hedge our foreign currency exposure.

DIVIDEND

We do not have a predetermined dividend policy. After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. The proposed dividends and the amount of declared dividends will be made at the discretion of the Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, interests of the Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that the Board deems relevant. Any dividend distribution will also be subject to the approval of the Shareholders in the Shareholders' meeting. Except as disclosed in this prospectus, all of our Shareholders have equal rights to dividends and distributions in the form of stock or cash.

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries, Beijing Shengyi in particular. Substantially all of our subsidiaries are incorporated and operate in the PRC, and must comply with their respective constitutional documents and PRC laws and regulations in declaring and paying dividends. Under the PRC Company Law and the Articles of Association, our PRC Subsidiaries will only be able to pay dividends out of their after-tax profits after having made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory reserve fund equivalent to 10% of their respective profit; and
- allocations, if any, to a discretionary reserve fund approved by their respective shareholders in a shareholders' meeting.

When the statutory reserve fund reaches and is maintained at or above 50% of their respective registered capital, no further allocations to this statutory fund will be required. In 2015, Beijing Shengyi declared and paid dividends of RMB66 million to Boqi Environmental Engineering, which was then its sole shareholder. In 2016, Beijing Shengyi declared and paid dividends of RMB95 million to our Company.

We did not declare any dividend to our Shareholders in 2014 and 2015 and the nine months ended September 30, 2017. We declared and paid dividend of RMB85 million to our shareholders in

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2016. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future.

LISTING EXPENSES

We will incur listing expenses in connection with the Listing, which include professional fees, underwriting commissions and other fees. Assuming an Offer Price of HK\$3.00 per Offer Share, being the mid-point of the range of the Offer Price as stated in this prospectus and the Over-allotment Option is not exercised, the listing expenses to be borne by us are estimated to be RMB44 million. Listing expenses of RMB19 million had been incurred as of September 30, 2017, which has been charged to our profit or loss. Listing expenses of approximately RMB25 million are expected to be incurred after September 30, 2017, of which RMB6 million is expected to be charged to our profit or loss and RMB19 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2017.

LOSS ESTIMATE FOR THE YEAR ENDED DECEMBER 31, 2017

Our Directors estimate, on the bases set out in Appendix III to this prospectus, and in the absence of unforeseen circumstances, the estimated loss attributable to owners of our Company for the year ended December 31, 2017 as follows.

Estimated loss attributable to owners of our Company ⁽¹⁾	no more than RMB38 million
Unaudited pro forma estimated basic and diluted loss per Share ⁽²⁾⁽³⁾⁽⁴⁾	no more than RMB0.06

Notes:

- (1) The loss estimate, for which our Directors are solely responsible for, has been prepared by our Directors based on our audited results for the nine months ended September 30, 2017 and the unaudited results based on our management accounts for the three months ended December 31, 2017. The loss estimate has been prepared on a basis consistent in all material respects with the accounting policies that we normally adopt as set out in the Accountants' Report in Appendix I to this prospectus.
- (2) The unaudited pro forma estimated loss per share for the year ended December 31, 2017 has been prepared in accordance with paragraph 4.29(1) of the Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on January 1, 2017. The unaudited pro forma estimated loss per share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial results following the Global Offering.
- (3) The calculation of the unaudited pro forma estimated basic loss per Share is based on the estimated results for the year ended December 31, 2017 attributable to the owners of our Company and assuming a weighted average of 680,921,994 shares in issue during the year ended December 31, 2017 and the Global Offering had been completed on January 1, 2017 without taking into account any shares which may be issued upon the exercise of the Over-allotment Option and any shares that may be granted under the Pre-IPO Share Award Scheme or our Class B Shares and Class C Shares into Class A Shares upon the completion of the Global Offering. The estimated consolidated loss attributable to the owners of our Company for the year ended December 31, 2017 has not taken into account any interest income that would have been earned if the proceeds from the Global Offering had been received by the Company on January 1, 2017 and the effect of the conversion of convertible ordinary shares into Class A ordinary shares upon the completion of the Global Offering.
- (4) The computation of the unaudited pro forma estimated diluted loss per Share for the year ended December 31, 2017 has not considered the effect of our Shares issued under the Pre-IPO Share Award Scheme or the conversion of our Class B Shares and Class C Shares into Class A Shares given that their effects are anti-dilutive.

Excluding our estimated fair value losses on our Class B Shares and Class C Shares for the year ended December 31, 2017, our estimated profit for the year ended December 31, 2017 would have been no less than RMB195 million.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had been taken place on September 30, 2017 and based on our consolidated net assets attributable to the owners of our Company at September 30, 2017 as shown in the Accountants' Report set forth in Appendix I to this prospectus and is adjusted as follows.

	Audited consolidated net tangible assets attributable to the owners of our Company as at September 30, 2017 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾ (RMB millions)	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as at September 30, 2017	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as at September 30, 2017 per Share ⁽³⁾⁽⁴⁾	
				RMB	HK\$
Based on an Offer Price of					
HK\$2.40 per Share	380	417	797	1.18	1.46
Based on an Offer Price of					
HK\$3.60 per Share	380	636	1,016	1.50	1.85

Notes:

- (1) The amount is calculated based on our consolidated net assets attributable to the owners of our Company as at September 30, 2017 amounting to approximately RMB807 million, extracted from the Accountants' Report set out in Appendix I to this prospectus, and adjusted for the intangible assets attributable to the owners of our Company as at September 30, 2017 of approximately RMB427 million.
- (2) The estimated net proceeds from the Global Offering are based on 227,227,500 Shares at the Offer Price of HK\$2.40 and HK\$3.60 per Share, being the low-end and high-end of the indicative range of the Offer Price, respectively, after deduction of the estimated underwriting fees and other related expenses expected incurred and to be borne by us (excluding listing expenses which has been charged to our consolidated statements of profit or loss up to September 30, 2017). The calculation of such estimated net proceeds does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option nor any Shares to be issued under the Pre-IPO Share Award Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.81094 to HK\$1.00. No representation is made that Hong Kong dollars amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after the adjustments referred to in note (2) above and based on 677,504,937 Shares, being the number of Shares expected to be in issue immediately following the completion of the Global Offering without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any Shares to be issued under the Pre-IPO Share Award Scheme.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the owners of our Company per Share is converted from Renminbi into Hong Kong dollars at the rate of HK\$1.00 to RMB0.81094. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as at September 30, 2017 to reflect any trading result or other transactions that we entered into subsequent to September 30, 2017. In particular, the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as shown on the table above have not been adjusted to illustrate the effect of the conversion of our Class B Shares and Class C Shares into Class A Shares upon the completion of the Global Offering (the "Conversion") as detailed below.
- (6) As at September 30, 2017, the carrying amount of our Class B Shares and Class C Shares was RMB649 million and recognized as financial liabilities. The Class B Shares and Class C Shares shall automatically be converted without the payment of any additional consideration into Class A Shares, upon the earlier of the completion of the Global Offering or the agreed-upon date specified by more than three-fourth of the holders of Class B Shares and Class C Shares, based on initial conversion ratio of 1:1, subject to adjustments based on adjustments of the conversion price. Had the Conversion taken place as at September 30, 2017, the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company would have increased from approximately RMB797 million to approximately RMB1,447 million based on an Offer Price of HK\$2.40 per Share, or from approximately RMB1,016 million to approximately RMB1,665 million based on an Offer Price of HK\$3.60 per Share. The unaudited pro forma adjusted consolidated net tangible assets per Share would have increased to HK\$1.79 (RMB1.45) and HK\$2.06 (RMB1.67) based on the Offer Price of HK\$2.40 per Share and HK\$3.60 per Share, respectively.

FINANCIAL INFORMATION

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that, at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our business continued to grow since September 30, 2017. In November 2017, we signed the contracts for two new EPC projects, where we will build new flue gas desulfurization facilities for the aluminum electrolytic units of two aluminum product manufacturers in Shandong Province. The contract value of the new EPC project amounted to approximately RMB22 million and RMB20 million, respectively. In November 2017, we successfully renewed our Tianjin SDIC Jinneng Power Plant Desulfurization, WESP and Water Intake Operation and Cleaning Project, where we will continue to provide operation and cleaning services for the power plant's flue gas desulfurization and dust removal facilities from 2018 to 2020. In January 2018, we signed the contract for a new EPC project, where we will build new flue gas desulfurization and denitrification facilities for the sintering units of a steel manufacturer in Hebei Province. The contract value of this new EPC project amounted to RMB105 million. The Directors confirm that they have performed sufficient due diligence on our Company to ensure that, save for the listing expenses and the fair value losses on our Class B Shares and Class C Shares, up to the date of this prospectus and save as disclosed in this prospectus, there has been no material adverse change in our financial or trading position or prospects since September 30, 2017, and there is no event since September 30, 2017 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.