



上海大眾公用事業（集團）股份有限公司

Shanghai Dazhong Public Utilities (Group) Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 1635

GLOBAL OFFERING



Joint Sponsors, Joint Global Coordinators,
Joint Bookrunners and Joint Lead Managers
(in alphabetical order)



Joint Global Coordinator,
Joint Bookrunner and Joint Lead Manager



Joint Bookrunners and Joint Lead Managers



*For identification purpose only

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



上海大眾公用事業(集團)股份有限公司 Shanghai Dazhong Public Utilities (Group) Co., Ltd.* (a joint stock company incorporated in the People's Republic of China with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering : 478,940,000 H Shares (comprising 435,400,000 H Shares to be offered by our Company and 43,540,000 Sale Shares to be sold by the Selling Shareholders, subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares : 47,894,000 H Shares (subject to adjustment)
Number of International Offer Shares : 431,046,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price : HK\$4.25 per H Share (payable in full on application, plus a brokerage of 1.0%, an SFC transaction levy of 0.0027% and a Hong Kong Stock Exchange trading fee of 0.005% and subject to refund)
Nominal value : RMB1.00 per H Share
Stock code : 1635

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



(in alphabetical order)



Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

We are incorporated, and most of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks relating to investment in PRC incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set forth in the sections entitled "Risk Factors", "Appendix IV — Summary of Principal Legal and Regulatory Provisions" and "Appendix V — Summary of The Articles of Association" in this prospectus.

The Offer Price is expected to be determined by agreement between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, November 28, 2016 or such later time as may be agreed by our Company and the Joint Representatives (for themselves and on behalf of the Underwriters, but in any event no later than Wednesday, November 30, 2016). The Offer Price will be not more than HK\$4.25 per Offer Share and is currently expected to be not less than HK\$3.35 per Offer Share. Investors applying for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$4.25 per Offer Share, unless otherwise announced, together with a brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$4.25 per Offer Share.

The Joint Representatives (for themselves and on behalf of the Underwriters), with the consent of our Company (for ourselves and on behalf of the Selling Shareholders), may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or of the indicative Offer Price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange and our website not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections entitled "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters) on or before Wednesday, November 30, 2016, the Global Offering will not proceed and will lapse.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, the Hong Kong Public Offer Shares, are subject to termination by the Joint Representatives (for themselves and on behalf of the Underwriters) if certain events shall occur prior to 8:00 a.m. on Monday, December 5, 2016. Such grounds are set out in the section entitled "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may be offered and sold only outside the United States in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under the White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Monday, November 28, 2016
Application lists open ⁽³⁾	11:45 a.m. on Monday, November 28, 2016
Latest time to lodge WHITE and YELLOW Application Forms	12:00 noon on Monday, November 28, 2016
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Monday, November 28, 2016
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Monday, November 28, 2016
Application lists close ⁽³⁾	12:00 noon on Monday, November 28, 2016
Expected Price Determination Date ⁽⁵⁾	Monday, November 28, 2016
Announcement of:	
(i) the Offer Price;	
(ii) the level of indication of interest in the International Offering;	
(iii) the level of applications in the Hong Kong Public Offering; and	
(iv) the basis of allotment of the Hong Kong Public Offer Shares (with successful applicants' identification document numbers, where appropriate) to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on our website at www.dzug.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on or before	
	Friday, December 2, 2016

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of channels
as described in the section headed "How to Apply for
Hong Kong Public Offer Shares — 11. Publication of Results"
from Friday, December 2, 2016

Results of allocations for the Hong Kong Public Offering
will be available at **www.iporesults.com.hk**,
with a "search by ID" function from Friday, December 2, 2016

Dispatch of H Share certificates in respect of wholly or
partially successful applications on or before⁽⁶⁾ Friday, December 2, 2016

Dispatch of refund cheques or White Form e-Refund payment
instructions in respect of wholly or partially
unsuccessful applications on or before⁽⁷⁾⁽⁸⁾ Friday, December 2, 2016

Dealings in H Shares on the Hong Kong Stock Exchange
expected to commence on Monday, December 5, 2016

Notes:

- (1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering".
- (2) You will not be permitted to submit your application through the **White Form eIPO** Service through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, November 28, 2016, the application lists will not open and close on that day. Further information is set out in the section headed "How to Apply for Hong Kong Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists". If the application lists do not open and close on Monday, November 28, 2016, the dates mentioned in this section may be affected. We will make an announcement in such event.
- (4) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Public Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS".
- (5) The Price Determination Date is expected to be on or about Monday, November 28, 2016, and in any event will not be later than Wednesday, November 30, 2016. If for any reason, the Offer Price is not agreed on or before Wednesday, November 30, 2016, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

EXPECTED TIMETABLE⁽¹⁾

- (6) H Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Friday, December 2, 2016 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.
- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more and have provided all required information may collect refund cheques (if applicable) and H Share certificates (if applicable) in person from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, December 2, 2016. Identification and (where applicable) authorization documents acceptable to the H Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more may collect their refund cheques (if applicable) in person but may not collect in person their H Share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through the **White Form eIPO** service by paying the application monies through a single bank account may have White Form e-Refund payment instructions (if any) dispatched to their application payment bank account on Friday, December 2, 2016. Applicants who have applied through the **White Form eIPO** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions through the **White Form eIPO** Service, on Friday, December 2, 2016, by ordinary post and at their own risk.

Uncollected H Share certificates (if applicable) and refund cheques (if applicable) will be dispatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Public Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies".

- (8) Refund cheques will be issued (where applicable) and White Form e-Refund payment instructions will be dispatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to the section headed "Structure of the Global Offering".

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Public Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus, in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Information contained on our website, located at www.dzug.cn, does not form part of this prospectus.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Selling Shareholders, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in our H Shares.

There are risks associated with any investment. Some of the particular risks in investing in our H Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in our H Shares.

OVERVIEW

We are a leading public utility service provider in Shanghai that complements our operations with strategic and financial investments in our associated companies in public utility and other industries, from which we generated a significant portion of our profit during the Track Record Period. The public utility services we provide include piped gas supply, wastewater treatment and public infrastructure projects. We generate a healthy cash flow from our main operations and we make selective strategic and financial investments, on a selective and opportunistic basis, to better utilize our cash balance. As a result, during the Track Record Period, we generated a substantial portion of our profit from our investment portfolio, in particular our associated companies. We believe investments in our associated companies serves our strategic goal and enhances the value of our Company, even though profit contributed from such investments does not necessarily correspond to cash inflow for any given fiscal year. We have been listed on the Shanghai Stock Exchange since 1993 with a market capitalization of approximately RMB15 billion as of the Latest Practicable Date and we are currently seeking a dual primary listing on the Hong Kong Stock Exchange.

We were the largest of the three suppliers of piped gas in Shanghai Urban Area in terms of length of pipeline under operation in 2015, according to the CIC Report. We were also the dominant supplier of piped gas in Nantong urban area in Jiangsu Province with an approximately 80% market share in terms of natural gas supply volume in 2015, according to the CIC Report. We operated one and five wastewater treatment plants in Shanghai and Xuzhou Area in Jiangsu Province as of June 30, 2016, respectively, through a combination of BOT and TOT arrangements with the local governments, and we also have a BT arrangement in relation to a wastewater treatment plant with the local government of Xiaoshan District, Hangzhou City, Zhejiang Province. Our public infrastructure projects during the Track Record Period included a river-crossing tunnel in Shanghai under a BOT arrangement and two roads in Changzhou City, Jiangsu Province under BT arrangements. All of such public infrastructure projects were in their concession or repurchase periods during the Track Record Period and we did not enter into new public infrastructure projects during the Track Record Period and as of the Latest Practicable Date.

We have maintained a strategic investment in Dazhong Transportation Group as its largest shareholder since 1999. In addition, we have built and actively managed a portfolio of long-term equity investments in the public utility, finance and other industries, which are supplemental to our operations of public utility services in order to enhance the value of our Company. In particular, we are the third largest shareholder of Shenzhen Capital Group, the largest venture capital company in China in terms of capital under management in 2015, according to the CIC Report. Both Dazhong Transportation Group and Shenzhen Capital Group are our associated companies and are accounted for under the equity method. We recorded a substantial portion of our profits in the form of share of results from Dazhong Transportation Group and Shenzhen Capital Group during the Track Record Period. For more details on our investments in our associated companies, please refer to "Business — Our Public Utility Service Business — Strategic Investment in Dazhong Transportation Group" and "Business — Financial Investments — Investment in associated companies". Our investment is primarily in associated companies and available-for-sale financial assets. For more details on how we determine our investments as associated companies or available-for-sale financial assets, please refer to Notes 4(c) and 4(j)(i) and 5(a) of the Accountant's Report in Appendix IA to this prospectus.

We started our micro-credit business in 2013 and financial leasing business in 2014 as means to diversify our revenue sources. Such businesses were relatively insignificant in terms of asset value, income contribution and risk exposure as compared to our operations of public utility services and strategic and financial investments during the Track Record Period.

SUMMARY

OUR BUSINESSES

The table below sets forth revenue contribution from our operational segments for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Public utility services										
Piped gas supply	3,695,224	94.0	3,960,609	94.0	4,359,700	94.4	2,478,541	95.1	2,379,022	93.5
Wastewater treatment	167,294	4.3	166,371	4.0	148,256	3.2	83,020	3.2	94,068	3.7
Public infrastructure projects	67,331	1.7	63,289	1.5	58,112	1.3	29,915	1.2	28,687	1.1
	<u>3,929,849</u>	<u>100.0</u>	<u>4,190,269</u>	<u>99.5</u>	<u>4,566,068</u>	<u>98.9</u>	<u>2,591,476</u>	<u>99.5</u>	<u>2,501,777</u>	<u>98.3</u>
Financial services										
Micro-credit	-	-	22,288	0.5	28,996	0.6	12,844	0.5	10,907	0.5
Financial leasing	-	-	-	-	21,531	0.5	1,023	-	31,341	1.2
Total	<u>3,929,849</u>	<u>100.0</u>	<u>4,212,557</u>	<u>100.0</u>	<u>4,616,595</u>	<u>100.0</u>	<u>2,605,343</u>	<u>100.0</u>	<u>2,544,025</u>	<u>100.0</u>

We generated the substantial majority of our revenue from piped gas supply operations. Revenue decreased by 2.4% from RMB2,605.3 million in the six months ended June 30, 2015 to RMB2,544.0 million in the six months ended June 30, 2016, primarily due to revenue decrease in pipeline construction. For more details and analyses on our revenue during the Track Record Period, please refer to “Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue”.

The table below sets forth the breakdown of gross profits and gross profit margin of our operational segments for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Public utility services										
Piped gas supply	304,735	8.2	338,027	8.5	546,293	12.5	385,678	15.6	276,539	11.6
Wastewater treatment	107,484	64.2	109,273	65.7	87,583	59.1	53,879	64.9	53,904	57.3
Public infrastructure projects	56,560	84.0	52,274	82.6	46,847	80.6	24,282	81.2	22,437	78.2
Financial services⁽¹⁾										
Micro-credit	-	-	21,177	95.0	27,488	94.8	12,189	94.9	10,443	95.7
Financial leasing	-	-	-	-	21,397	99.4	1,023	100.0	31,341	100.0
Total	<u>468,779</u>	<u>11.9</u>	<u>520,751</u>	<u>12.4</u>	<u>729,608</u>	<u>15.8</u>	<u>477,051</u>	<u>18.3</u>	<u>394,664</u>	<u>15.5</u>

Note:

- (1) Cost of sales associated with financial services consisted mainly of applicable business tax. The majority of cost attributable to financial services was interest payments on loans we borrowed to fund the financial services. Such interest payments were recognized as finance cost and not cost of sales associated with financial services. As such, the gross profit and gross profit margin are not indicative of our results attributable to financial services.

For more details and analysis on the gross profit and gross profit margin of our operational segments during the Track Record Period, please refer to “Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin”.

SUMMARY

A significant portion of our profits were attributable to our strategic investments in Dazhong Transportation Group and our financial investments during the Track Record Period. In 2013, 2014 and 2015 and the six months ended June 30, 2016, our profits from our strategic investments in Dazhong Transportation Group represented 18.1%, 17.7%, 47.6% and 13.7% and our financial investments represented 61.4%, 53.8%, 28.4% and 48.8% of our reportable total segment profits during the same periods, respectively. Conversely, our reportable segment profit margins for our piped gas supply segment, from which we derived the substantial majority of our revenue, was 0.2%, 1.4%, 1.3% and 4.1% in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The table below sets forth a summary of our material segment information for the indicated periods:

Segments	Year ended December 31,									Six months ended June 30,		
	2013			2014			2015			2016		
	Profits	Assets	Liabilities	Profits	Assets	Liabilities	Profits	Assets	Liabilities	Profits	Assets	Liabilities
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Piped gas supply	8,135	4,376,196	3,167,817	56,872	5,089,533	3,857,714	55,610	4,924,640	3,786,586	98,211	5,463,830	4,080,992
Wastewater treatment	65,527	964,774	223,809	64,059	1,085,808	198,681	50,745	1,063,327	184,839	42,174	1,080,021	171,487
Public infrastructure projects	35,415	923,303	168,769	30,793	876,048	278,287	27,181	885,320	297,938	14,764	770,571	272,754
Investments	327,515	2,297,908	28,612	314,977	2,350,759	41,061	202,360	3,251,309	62,161	228,084	3,446,837	456,550
Transportation services	96,657	1,361,018	–	103,814	1,564,096	–	338,686	2,076,060	–	64,095	2,393,782	–
Financial services	33	200,097	73	15,271	475,724	13,851	37,029	1,405,077	682,502	20,518	1,570,562	802,031
Segment total	533,282	10,123,296	3,589,080	585,786	11,441,968	4,389,594	711,611	13,605,733	5,014,026	467,846	14,725,603	5,783,814

Segment profit from transportation services increased significantly from RMB103.8 million in 2014 to RMB338.7 million in 2015 primarily due to the partial disposal of equity interest in Dazhong Transportation Group to capitalize on the favorable stock prices. For more details, please refer to “Business — Our Public Utility Service Business — Strategic Investment in Dazhong Transportation Group”. Segment profit from investment decreased from RMB315.0 million in 2014 to RMB202.4 million in 2015 primarily due to gain from the disposal of available-for-sale financial assets, which decreased from RMB145 million in 2014 to RMB37 million in 2015.

Piped Gas Supply Services

We commenced our piped gas supply business in Shanghai in 2001 and in Nantong Area in 2003. Revenue generated from our Shanghai and Nantong Area operations accounted for 85.2% and 14.8% of our total revenue generated from piped gas supply services in 2015, respectively. We generated the substantial majority of revenue relating to our piped gas supply operations from the sales of piped gas to end users. We also generated revenue from pipeline construction for non-residential users and the one-time gas connection fees charged on residential users, which were recorded as deferred income upon collection of the fees and recognized as gas connection revenue proportionately on a straight-line basis over a 10-year period pursuant to relevant government regulations. We also generated a small portion of revenue from sales of related gas supply products. The table below sets forth a breakdown of our revenue generated from piped gas supply operations for the indicated periods:

	Year ended December 31,						Six months ended June 30,					
	2013		2014		2015		2015		2016			
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%		
Sales of piped gas	3,119,809	84.4	3,345,772	84.5	3,638,430	83.5	2,030,905	81.9	2,004,861	84.2		
Pipeline construction	246,937	6.7	293,283	7.4	394,199	9.0	273,058	11.0	194,290	8.2		
Gas connection	204,317	5.5	203,984	5.1	207,343	4.8	102,976	4.2	108,331	4.6		
Sales of related products	124,161	3.4	117,570	3.0	119,728	2.7	71,602	2.9	71,540	3.0		
Total	3,695,224	100.0	3,960,609	100.0	4,359,700	100.0	2,478,541	100.0	2,379,022	100.0		

SUMMARY

The chart below illustrates the model of our piped gas operations during the Track Record Period:



We conduct our piped gas supply operations in Shanghai through our subsidiary, Shanghai Dazhong Gas. Shanghai Gas Group and our Company each holds a 50% equity interest in Shanghai Dazhong Gas. Shanghai Gas Group is a state-owned enterprise and a minority shareholder of our Company. We control the daily operations and business decision-making of Shanghai Dazhong Gas. We conduct our piped gas supply operations in Nantong Area through our subsidiary, Nantong Dazhong Gas. Shanghai Dazhong Gas Investment and Nantong Gas General each owns a 50% equity interest in Nantong Dazhong Gas. Nantong Gas General is a state-owned enterprise and is an Independent Third Party. We control the daily operations and business decision-making of Nantong Dazhong Gas. For more details, please refer to the section “Financial Information — Critical Accounting Policies and Judgements — Judgements — Consolidation of entities in which the Group holds 50% voting rights”.

We conduct our piped gas supply operations in Shanghai and Nantong Area under gas operation permits issued by the competent government authorities. We did not hold any concession rights and did not enter into any concession agreement as of the Latest Practicable Date, primarily because the competent government authorities were still in the process of formulating regulatory procedures pursuant to which concession rights will be granted. We obtained written confirmations from the competent government authorities in Shanghai and Nantong Area that we have legally obtained our gas operation permits and have the requisite regulatory qualifications to conduct gas supply business in Shanghai and Nantong Area, respectively. For more details, please refer to the sections “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Operations in the Absence of a Concession Agreement in Shanghai” and “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Operations in the Absence of a Concession Agreement in Nantong Area”.

According to the PRC Pricing Law, the PRC government may direct, guide or adjust the prices of public utilities. NDRC sets the gateway station prices of piped gas, and may adjust such prices from time to time. Local government authorities, such as Shanghai DRC and Nantong Price Bureau, upon approval from the local municipal government, set the benchmark and/or maximum piped gas retail prices generally with a reference to the gateway station prices. In Shanghai, guidance procurement price of piped gas is set by Shanghai Construction Administration. In Nantong Area, our procurement price of piped gas is negotiated with the upstream piped gas supplier generally with a reference to the gateway station prices. Please refer to the section “Regulatory Overview — The Laws and Regulations of the PRC relating to the Municipal Public Utilities Industry — Natural Gas Supply and Sales Business — Natural gas pricing mechanism”.

Wastewater Treatment Services

We conduct our wastewater treatment operations through BOT and TOT arrangements, in which we are entitled to operate our wastewater treatment plants for a concession period in exchange for service fees payable to us by the relevant local governments. The fees we receive during the concession periods are based on the treatment volume and the unit price. According to the CIC Report, our market share in Shanghai and Xuzhou Area in terms of total wastewater

SUMMARY

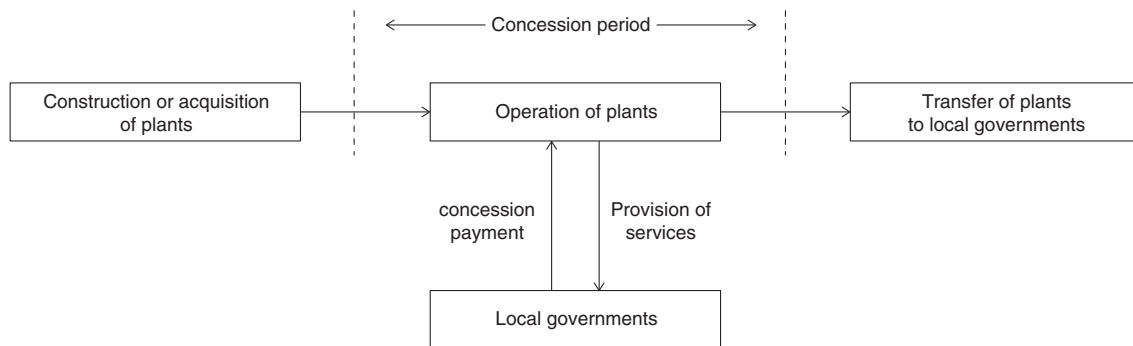
treatment volume in 2014 was 2.04% and 20.74%, respectively. The table below sets forth details of our wastewater treatment plants as of June 30, 2016:

Phase	Shanghai Project		Xuzhou Project						
	Jiading ⁽²⁾		Sanbahe		Jiawang ⁽³⁾		Peixian		Pizhou ⁽³⁾
	Phase I and II	Phase III	Phase I	Phase II	Phase I	Phase I	Phase II	Phase I	
Contract type	BOT	BOT	BOT	BOT	BOT	BOT	BOT	TOT	BOT
Concession period (years)	30	20	25	25	28	30	30	30	26
End of concession period	2036	2036	2028	2036	2034	2035	2038	2034	2032
Initial contract date	July 2006	March 2016	March 2003	December 2010	March 2005	May 2005	May 2008	November 2004	July 2004
Unit treatment price (RMB/m ³)	1.21	1.69	1.00	1.00	1.08	0.96	0.96	1.19	1.07
Water quality requirement (Class) ⁽¹⁾	II	I	I	I	I & II	I & II	I	I	II
Designed capacity (m ³ /day)	100,000	75,000	30,000	40,000	20,000	25,000	25,000	20,000	20,000

Notes:

- (1) As defined in Urban Wastewater Treatment Plant Discharge Standards (城镇污水處理廠污染物排放標準) (GB18918-2002).
- (2) Under the BOT agreement with Jiading District Water Authority in March 2016, at the expiration of the concession agreement, we will retain ownership of assets under Phase I of the plant but will transfer assets under Phase II and III of the plant to Jiading District Water Authority.
- (3) In July 2016, we disposed of 51% of equity interests in Xuzhou Fountainhead Sewage and Pizhou Fountainhead Water, which operate the Jiawang plant and Pizhou plant, respectively. For more details, please refer to “— Recent Development”.

The chart below illustrates the model of our wastewater treatment operations through BOT and TOT arrangements during the Track Record Period:



The table below sets forth a breakdown of our revenue by contract type under our wastewater treatment operations:

	Year ended December 31,						Six months ended June 30,	
	2013		2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
BOT Projects	121,113	72.4	119,764	72.0	104,133	70.2	73,957	78.6
TOT Project	6,670	4.0	8,416	5.0	8,118	5.5	3,714	4.0
BT Project	39,511	23.6	38,191	23.0	36,005	24.3	16,397	17.4
Total	167,294	100.0	166,371	100.0	148,256	100.0	94,068	100.0

For details of accounting treatments for each type of contract, please refer to “Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue”.

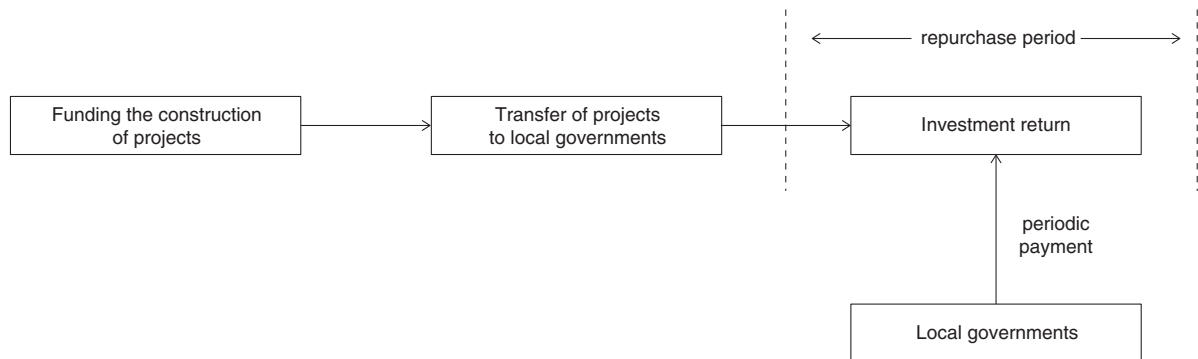
SUMMARY

Public Infrastructure Projects

The table below sets forth details of our public infrastructure projects during the Track Record Period.

Location	Contract type	Concession/repurchase period (years)	Start of concession/repurchase period	End of concession/repurchase period	Un-recovered investment amount as of June 30, 2016
					<i>RMB'000</i>
Xiangyin Road tunnel, Shanghai	BOT	25	January 2006	December 2030	669,761
Paotong Road and North Square, Changzhou	BT	7	September 2010	September 2017	11,462
Wuyi Road, Changzhou	BT	7	September 2010	September 2017	20,292

The BOT business model for public infrastructure projects is similar to BOT wastewater treatment projects. The chart below illustrates the model of our public infrastructure projects under BT arrangements during the Track Record Period:



The table below sets forth a breakdown of our revenue by contract type under our public infrastructure projects:

	Year ended December 31,						Six months ended June 30,	
	2013		2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
BOT Project	54,957	81.6	53,347	84.3	52,234	89.9	25,943	90.4
BT Project	12,374	18.4	9,942	15.7	5,878	10.1	2,744	9.6
Total	67,331	100.0	63,289	100.0	58,112	100.0	28,687	100.0

For details of accounting treatments for each type of contract, please refer to “Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue”.

SUPPLIERS

The main suppliers for our piped gas business are upstream gas suppliers. Shanghai Gas Group and CNPC are our sole upstream piped gas suppliers in Shanghai and Nantong Area, respectively. For more details on piped gas procurement, please refer to the section “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement”. We also engage third-party professional design companies and construction companies who act as contractors for our large-scale construction projects in our public utility businesses. For more details, please refer to the section “Business — Suppliers”.

SUMMARY

CUSTOMERS

The customers in our piped gas supply operations are residential and non-residential end users. Due to the nature of the gas supply business, we are generally able to retain our customers once they are connected to our gas supply network and use our gas supply services. We conduct our wastewater treatment and public infrastructure project businesses mainly through BOT, TOT or BT arrangements under which our customers are local governments. For more details, please refer to the section “Business — Customers”.

OUR STRATEGIC AND FINANCIAL INVESTMENTS

During the Track Record Period, we maintained a portfolio of strategic and financial investments. We generally hold equity interest in associated companies as long-term investments. The table below sets forth our investments as of June 30, 2016:

Name of companies	Registered capital	As of June 30, 2016		Principal activities
		% of equity interests ⁽¹⁾	Book value	
	RMB'000		RMB'000	
Public Utility Services				
Dazhong Transportation Group	2,364,123	25.54	2,393,782	Public transportation
Suchuang Gas	50,000	19.76	360,307	Supply of piped gas
Financial Investment				
Shenzhen Capital Group	4,202,250	13.93	1,581,177	Investment holding and provision of financial consultation and asset management services
SEISYS	100,000	28.00	108,773	Provision of products and services for smart transportation solution
Shanghai Hangxin	255,600	16.13	83,106	Investment management services
Shanghai Xingye Venture Capital	40,000	20.00	110,747	Investment
Xuhui Only Micro-Credit	150,000	20.00	32,223	Microfinance services
Total Investment in Associated Companies			4,670,115	
Other Investment ⁽²⁾	—	—	1,007,025	
Total Investment			5,677,140	

Notes:

- (1) The percentages represent our interests in the respective associated companies.
- (2) Other investments included RMB882.7 million and RMB60 million non-current and current available-for-sale financial assets as well as RMB64.4 million financial assets at fair value through profit or loss as of June 30, 2016, respectively.

We have been the largest shareholder of Dazhong Transportation Group since 1999 and held a 25.54% equity interest in Dazhong Transportation Group as of June 30, 2016. As a leading urban transportation service provider in eastern China in terms of number of vehicles in service, Dazhong Transportation Group’s main businesses include taxi operation, car rental and other transportation-related business. Dazhong Transportation Group also engages in other businesses such as travel-related business, real estate development and financial services. Taxi operation was the main business during the early stage of our Company in 1990’s and we continue to be closely involved in Dazhong Transportation Group’s business operations through our board presence and regular communication at senior management level. For more details, please refer to the section “Business — Our Public Utility Service Business — Strategic Investment in Dazhong Transportation Group”.

SUMMARY

We also made equity financial investments in the public utility, finance and other industries. Our principle for investments in available-for-sale assets is to focus on private companies in the PRC which have a plan for a public listing in the foreseeable future. In particular, we are the third largest shareholder of Shenzhen Capital Group with a 13.93% equity interest as of June 30, 2016. Shenzhen Capital Group is the largest venture capital company in China in terms of capital under management in 2015 according to the CIC Report. We participate in the operational and investment decision-making of Shenzhen Capital Group through our presence in the board of directors, strategy and budget committee, remuneration and assessment committee and nominating committee. For more details, please refer to the section “Business — Financial Investments — Our investment in Shenzhen Capital Group”.

OUR COMPETITIVE STRENGTHS

We believe our success is attributable to our following competitive strengths:

- Leading public utility operations in Shanghai with a well-established brand name that provides steady operating cash flow and the foundation for business growth and expansion;
- Long-established piped gas supply and quality wastewater treatment operations in the Yangtze River Delta;
- Diversified income stream through a prudent investment portfolio with solid historical performance of sustained value growth and recurring dividend income;
- Proven capability to fulfill our dual responsibilities to serve public interest and generate returns for shareholders through large-scale government public utility projects;
- Visionary and experienced management led by Mr. Yang Guoping; and
- Rigorous corporate governance and risk management.

OUR STRATEGIES

As part of our business direction, we intend to pursue the following principal strategies to grow our business and create value for our shareholders:

- Continue to expand and optimize our public utility business and solidify our leading market position;
- Develop our environment protection-related business;
- Continue to implement our prudent investment philosophy and enhance risk management of our financial investments and service businesses;
- Expand our geographic reach and build a nation-wide and overseas operation platform through organic growth and acquisitions; and
- Continue to fulfill our social responsibility and serve public interests.

SUMMARY

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets forth our consolidated statements of profit or loss and other comprehensive income:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Revenue	3,929,849	4,212,557	4,616,595	2,605,343	2,544,025
Cost of sales	(3,461,070)	(3,691,806)	(3,886,987)	(2,128,292)	(2,149,361)
Gross profit	468,779	520,751	729,608	477,051	394,664
Other income and gains	50,048	48,789	45,820	20,453	12,954
Selling and distribution costs	(97,564)	(108,859)	(143,172)	(69,335)	(72,792)
Administrative expenses	(306,323)	(299,446)	(354,263)	(187,332)	(143,967)
Investment income and gains, net	44,446	162,968	72,081	40,650	106,930
Gain on disposal of a subsidiary	69,072	-	-	-	-
Gain on partial disposal of equity interests in an associate	-	-	216,386	216,386	-
Compensation income/(loss) in connection with disposal of a subsidiary in prior year ⁽¹⁾	61,372	-	(80,000)	(80,000)	-
Finance costs	(167,827)	(171,156)	(176,629)	(86,574)	(83,304)
Share of results of associates	241,332	263,716	263,326	166,593	206,605
Profit before income tax expense	363,335	416,763	573,157	497,892	421,090
Income tax expense	(49,898)	(42,508)	(37,432)	(40,077)	(62,298)
Profit for the year/period	313,437	374,255	535,725	457,815	358,792
Profit for the year/period attributable to:					
Owners of the Company	279,068	340,469	463,800	402,422	300,083
Non-controlling interests	34,369	33,786	71,925	55,393	58,709
	313,437	374,255	535,725	457,815	358,792

Note:

- (1) The compensation was related to our disposal of Nanchang Gas Co. Ltd. in 2009. For details, please refer to Note 53 of the Accountant's Report in Appendix IA to this prospectus.

In 2013, 2014 and 2015 and the six months ended June 30, 2016, our net income from one-off events represented 39.4%, 17.8%, 28.2% and nil of our profit before tax during the same periods. One-off events during the Track Record Period included compensation received in 2013 for equity interests in an associate disposed in 2009 and related compensation paid in 2015 as well as our gains on disposal or partial disposal of a subsidiary and associates. Our net profit decreased by 21.6% from RMB457.8 million in the six months ended June 30, 2015 to RMB358.8 million in the six months ended June 30, 2016, primarily due to a decrease in revenue in the six months ended June 30, 2016 and a one-time gain from the disposal of shares in Dazhong Transportation Group made in the six months ended June 30, 2015. For more details and analyses on our net profit during the Track Record Period, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income".

Our Directors confirm that we satisfied the relevant listing eligibility requirement tests of Rule 8.05(2) and Rule 8.05(3) of the Listing Rules for the Track Record Period.

SUMMARY

NET CURRENT LIABILITIES

The table below sets forth a summary of our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2013	2014	2015	2016	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Total current assets	1,441,724	2,215,145	2,982,156	3,502,771	3,994,184
Total current liabilities	(2,856,154)	(3,585,647)	(4,008,239)	(5,235,349)	(5,652,270)
Net current liabilities	(1,414,430)	(1,370,502)	(1,026,083)	(1,732,578)	(1,658,086)

We recorded net current liabilities of RMB1,414.4 million, RMB1,370.5 million, RMB1,026.1 million and RMB1,732.6 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. As of September 30, 2016, we had net current liabilities of RMB1,658.1 million. Our net current liabilities were mainly attributable to (i) our short-term bank borrowings for our capital expenditure needs; and (ii) our short-term trade and bill payables. Our short-term trade and bill payables consisted primarily of payables for piped gas procurement fees due to Shanghai Gas Group. Shanghai Gas Group has not strictly enforced provisions in relation to payment schedule and additional payment obligations under our framework gas purchase agreement, see “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement — Piped gas suppliers” for details. Based on the financial resources available to our Group, including cash and cash equivalent, internally generated funds and available banking facilities, our Directors believe, and the Joint Sponsors concur, that we will be able to satisfy our working capital requirements in the next 12 months from the date of this prospectus, not taking into consideration the proceeds to be received from the Global Offering. For more details, please refer to the section “Financial Information — Net Current Liabilities”.

KEY FINANCIAL RATIOS

The following table sets forth the major financial ratios as of the dates or of the indicated periods:

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2013	2014	2015	2016
Current ratio	0.50	0.62	0.74	0.67
Return on equity	7.3%	8.3%	9.2%	10.4%
Net profit margin	8.0%	8.9%	11.6%	14.1%
Net debt to equity ratio	30.9%	22.2%	29.2%	34.4%
Interest coverage ratio	3.2	3.4	4.2	6.1
Gearing ratio	51.3%	51.1%	52.0%	62.7%

For further details on our key financial ratios, please refer to the section “Financial Information — Key Financial Ratios”.

NO MATERIAL ADVERSE CHANGES

Our Directors confirm that, since June 30, 2016 and up to the date of this prospectus, there has been no material adverse change in our financial and liquidity position or prospects, revenue or gross profit margin and no event has occurred that would materially affect the information shown in the Accountant’s Report set out in Appendix IA to this prospectus.

SUMMARY

SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, Shanghai Dazhong Business Management, our largest Shareholder, held 495,143,859 Shares, representing approximately 20.07% of our registered share capital. Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, Shanghai Dazhong Business Management is expected to continue to be the largest Shareholder and to hold 495,143,859 Shares, representing approximately 17.06% of our registered share capital.

To ensure that Shanghai Dazhong Business Management does not compete with our Company, we entered into a non-competition agreement with Shanghai Dazhong Business Management before Listing which will be effective upon Listing. For details, please refer to the section “Substantial Shareholders”.

FORFEITURE OF GAINS EARNED BY SHAREHOLDERS

Pursuant to the Articles of Association, any gains from the sale of shares of the Company by, among others, any of the Company’s shareholders holding 5% or more of the shares in the Company within six months after purchasing such shares, or thereafter any gains from repurchasing such shares in the Company within six months after the sale thereof, shall be vested in the Company. The Board of Directors of the Company shall forfeit such gains from such shareholders. However, where the securities company, as the sole underwriter, purchases all the unsold shares and therefore holds more than 5% of the shares in the Company, sale of such shares is exempted from the six-month restriction. As advised by our PRC legal advisers, Jin Mao P.R.C. Lawyers, such provisions shall, as part of the Articles of Association, apply to all shareholders of the Company. For details, please refer to “Appendix V — Summary of the Articles of Association — Share Transfers” and “Appendix IV — Summary of Principal Legal and Regulatory Provisions — Securities Laws and Regulations”.

RECENT DEVELOPMENT

On July 14, 2016, to further incentivize the management of Pizhou Fountainhead Water and Xuzhou Fountainhead Sewage to improve operational efficiency, we transferred 51% equity interests in Pizhou Fountainhead Water and 51% equity interests in Xuzhou Fountainhead Sewage to certain members of the management of Pizhou Fountainhead Water and Xuzhou Fountainhead Sewage, respectively, for a total consideration of RMB14.5 million and RMB12.2 million, respectively. For more details, please refer to “History, Development and Corporate Structure — History and Development — Disposals after June 30, 2016”.

In September 2016, we issued the first tranche of ultra-short term notes in an aggregate principal amount of RMB300 million with a term of 270 days and an interest rate of 2.90% per annum. For more details, please refer to “Financial Information — Indebtedness — Corporate Bonds”.

We are a public company listed on the Shanghai Stock Exchange and we are required under the relevant PRC securities laws and regulations to disclose unaudited quarterly financial statements. We have included our unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2016 in “Appendix IB — Unaudited Interim Financial Information” to this prospectus, which have been prepared under IFRS and reviewed by our Reporting Accountant in accordance with Hong Kong Standard on Review Engagements 2410.

The trends in changes in revenue, gross profit and gross profit margin in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 were generally in line with the changes in the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. For the detailed analyses and the year-on-year comparison of our results of operations in the six months ended June 30, 2015 and 2016, please refer to “Financial Information — Results of Operations — Six Months Ended June 30, 2016 Compared with Six Months Ended June 30, 2015”.

Share of results of associates increased by 55.5% from RMB223.1 million in the nine months ended September 30, 2015 to RMB346.8 million in the nine months ended September 30, 2016, primarily due to the increase in share of results from Shenzhen Capital Group, which was in turn a result of the increase in its net profit during the period. Share of results from Dazhong Transportation Group and Shenzhen Capital Group accounted for 31.3% and 49.3% of

SUMMARY

total share of results of associates in the nine months ended September 30, 2016, respectively. Net profit decreased by 8.0% from RMB546.1 million in the nine months ended September 30, 2015 to RMB502.2 million in the nine months ended September 30, 2016. The decrease was primarily due to the decrease in gross profit in the nine months ended September 30, 2016 and the one-time gain on partial disposal of equity interest in Dazhong Transportation Group in the nine months ended September 30, 2015, which was partially offset by the increase in share of results of associates in the nine months ended September 30, 2016.

We had net current liabilities of RMB1,658.1 million as of September 30, 2016. Trade and bills payables due to Shanghai Gas Group was RMB1,118.1 million, which accounted for 71.5% of our total trade and bills payables as of September 30, 2016. As of September 30, 2016, we had cash and cash equivalent of RMB2,283.9 million.

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon the Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. Assuming the Over-Allotment Option is not exercised and based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range), we expect that the total amount of listing related expense, including underwriting commission, would be approximately RMB110.0 million. We expect listing expenses excluding underwriting commission and incentive bonus would be approximately RMB54.5 million, of which RMB7.1 million will be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending December 31, 2016.

OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$3.35 per H Share	Based on an Offer Price of HK\$4.25 per H Share
Market capitalization of our H Shares ⁽²⁾	HK\$1,604 million	HK\$2,035 million
Unaudited pro forma adjusted net tangible asset value per Share as of September 30, 2016 ⁽³⁾	HK\$2.62	HK\$2.75

Notes:

- (1) All statistics in the table are based on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 478,940,000 H Shares to be issued and outstanding immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised.
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II "Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets per Share Attributable to the Owners of the Company" in this prospectus and on the basis of 2,902,704,675 Shares being issued and outstanding immediately following the completion of the Global Offering.

FUTURE PLANS AND USES OF PROCEEDS

Assuming an Offer Price of HK\$3.80 (being the mid-point of the indicative Offer Price range), we estimate that we will receive net proceeds of approximately HK\$1,528.2 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering, assuming the Over-allotment Option is not exercised. We intend to use the net proceeds of the Global Offering for the following purposes:

- (i) approximately 35% will be used for investments in the piped gas supply business;
- (ii) approximately 30% will be used for investments in the wastewater treatment business;
- (iii) approximately 25% will be used for investments in other public utility businesses; and
- (iv) the remaining amount of not more than 10% will be used to provide funding for our working capital and other general corporate purposes.

SUMMARY

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated Offer Price range. For more details, please refer to the section “Future Plans and Use of Proceeds”. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering.

RISK FACTORS

There are certain risks and uncertainties relating to an investment in our Shares. These risks include: (1) risks related to our public utility service business; (2) risks related to our financial services business; and (3) risks related to our financial investment. We believe the most significant risks involved in our business and results of operations include:

- Piped gas procurement and retail prices are controlled and adjusted from time to time by the competent government authorities and we do not have control over such prices or adjustments. Our profit may be materially and adversely affected if we are unable to pass on increases in procurement prices to our end users in a timely manner.
- Our business operations are subject to significant operational and transmission risks relating to piped gas and in connection with potential accidents arising from our operations and other unforeseen risks. Our insurance coverage might not be adequate to cover all the risks we may face.
- Any instability in, shortages of or disruption to, the supply of piped gas to us from our upstream piped gas suppliers could materially and adversely affect our business. We may also be materially and adversely affected by a shortage of piped gas in the PRC in general.
- We operated our piped gas supply business in the absence of concession rights or concession agreement during the Track Record Period and as of the Latest Practicable Date.
- Shanghai Gas Group may change their current practice of not strictly enforcing provisions under the relevant framework gas procurement agreements in relation to payment schedule and volume-based extra payment obligations.
- During the Track Record Period, we generated a substantial portion of our profit from associated companies over whose business we only have significant influence but no control.

DIVIDEND

Our Directors are responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders’ General Meeting for approval. Whether we pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, cash dividends we receive from our subsidiaries and associated companies, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Directors deem relevant.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Shanghai Gas Group is a connected person of our Company pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules. As a result, the purchase of piped gas by Shanghai Dazhong Gas from Shanghai Gas Group will constitute continuing connected transactions of our Group upon Listing. Shanghai Dazhong Gas entered into a framework gas purchase agreement and a supplemental agreement with Shanghai Gas Group in connection with the purchase of piped gas. The gas purchase agreement has a term of 20 years. We have applied to the Hong Kong Stock Exchange for waivers in relation to the connected transactions with Shanghai Gas Group, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Hong Kong Listing Rules. For more details, please refer to the section “Connected Transactions”.

DEFINITIONS

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

“ABIMCL”	Ace Best Investing Management Corporation Limited, a limited liability company incorporated in Hong Kong on September 17, 2012 and our indirect wholly-owned subsidiary through Dazhong Hong Kong International
“Allpay International Finance Service”	Allpay (International) Finance Service Corporation Limited (眾銀(國際)金融服務有限公司), a limited liability company incorporated in Hong Kong on April 8, 2016 and owned as to 60% by Dazhong Hong Kong International and 40% by 99 Wuxian Limited (99無限有限公司, a company listed on the Australian Securities Exchange), an Independent Third Party
“Application Form(s)”	WHITE application form(s) and YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on July 28, 2015 to take effect on the Listing Date, as amended or supplemented from time to time
“A Share(s)”	domestic share(s) of our Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“A Shares Offering”	the offer for subscription of 6,000,000 A Shares by our Company to the public in the PRC, which commenced trading on the Shanghai Stock Exchange on March 4, 1993
“BCM”	billion cubic meter
“Board” or “Board of Directors”	the board of Directors

DEFINITIONS

“BOT”	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, construction, operation and maintenance of municipal facilities in a concession period, during which the enterprise can charge service fees to cover its costs of investment, operation and maintenance and obtain reasonable returns, while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government
“BT”	Build and Transfer, a project model whereby an enterprise undertakes the financing and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
“Business Day”	any day (excluding a Saturday, or a Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“CAGR”	compound annual growth rate
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the Operational Procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, the Hong Kong Special Administrative Region of China, the Macau Special Administrative Region of China and Taiwan
“China Resources Gas”	China Resources Gas (Group) Co., Ltd.* (華潤燃氣(集團)有限公司)
“Chinese Culture Investment”	Chinese Culture Industry Equity Investment (Shanghai) Center (Limited partnership)* (華人文化產業股權投資(上海)中心(有限合夥))
“CIC”	China Insights Consultancy Limited, an independent market research and consulting company which prepared the CIC Report
“CIC Report”	the industry report produced by CIC
“CNG”	compressed natural gas
“CNPC”	China National Petroleum Corporation* (中國石油天然氣集團公司)
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company” or “our Company”	Shanghai Dazhong Public Utilities (Group) Co., Ltd.* (上海大眾公用事業(集團)股份有限公司), formerly known as Shanghai Pudong Dazhong Taxi Co., Ltd.* (上海浦東大眾出租汽車股份有限公司) and Shanghai Dazhong Enterprises of Science and Technology Ltd.* (上海大眾科技創業(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC on January 1, 1992, whose A Shares have been listed on the Shanghai Stock Exchange since March 4, 1993 (Stock Code: 600635.SH)
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Dazhong Hong Kong International”	Dazhong (Hong Kong) International Corporation Limited (大眾(香港)國際有限公司), a limited liability company incorporated in Hong Kong on November 10, 2008 and our indirect wholly-owned subsidiary, owned as to 95.24% by our Company and 4.76% by Shanghai Dazhong Asset Management
“Dazhong Insurance”	Dazhong Insurance Co., Ltd.* (大眾保險股份有限公司) (now known as Starr Property & Casualty Insurance (China) Company Limited* (史帶財產保險股份有限公司))
“Dazhong Transportation Group”	Dazhong Transportation (Group) Co., Ltd.* (大眾交通(集團)股份有限公司), a joint stock company with limited liability incorporated in the PRC on June 6, 1994, whose A shares (Stock Code: 600611.SH) and B shares (Stock Code: 900903.SH) have been listed on the Shanghai Stock Exchange since August 7, 1992
“Director(s)” or “our Director(s)”	the director(s) of our Company
“DRC”	the Development and Reform Commission (發展改革委員會) at local level in the PRC
“FCEEL”	Fretum Construction & Engineering Enterprise Limited, a limited liability company incorporated in Hong Kong on September 17, 2012 and our indirect wholly-owned subsidiary through Dazhong Hong Kong International

DEFINITIONS

“gateway station price”	the benchmark price determined by the NDRC for wholesale of piped gas sold by upstream supplier to local gas distributors
“GBDCL”	Galaxy Building & Development Corporation Limited, a limited liability company incorporated in Hong Kong on September 17, 2012 and our indirect wholly-owned subsidiary through Dazhong Hong Kong International
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “we” or “us”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“H Share(s)”	overseas listed foreign share(s) in our registered share capital, with a nominal value of RMB1.00 each, which are to be listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hainan Dazhong Ocean”	Hainan Dazhong Ocean Industry Co., Ltd.* (海南大眾海洋產業有限公司) (formerly known as Hainan Dazhong Lingwei Ocean Industry Co., Ltd.* (海南大眾凌偉海洋產業有限公司)), a limited liability company incorporated in the PRC on June 4, 1998 and a directly wholly-owned subsidiary of our Company

DEFINITIONS

“Hangzhou Qiantang Sewage”	Hangzhou Xiaoshan Qiantang Sewage Co., Ltd.* (杭州蕭山錢塘污水處理有限公司), a limited liability company incorporated in the PRC on February 11, 2004 and owned as to 90% by Shanghai Dazhong Environment and 10% by Hangzhou Xiaoshan Sewage Co., Ltd.* (杭州蕭山污水處理有限公司), an Independent Third Party
“HK\$” or “HK dollars” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Public Offer Shares”	47,894,000 H Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section “Structure of the Global Offering”)
“Hong Kong Public Offering”	the issue and offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section “Structure of the Global Offering”) at the Offer Price (plus brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms as further described in the section “Structure of the Global Offering — Hong Kong Public Offering”
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section “Underwriting”

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated November 22, 2016 relating to the Hong Kong Public Offering entered into by, among others, our Company, Shanghai Dazhong Business Management and the Hong Kong Underwriters, as further described in the section “Underwriting — Hong Kong Underwriting Arrangements”
“IFRS”	International Financial Reporting Standards, which include the International Accounting Standards, amendments and interpretations issued by the International Accounting Standards Board
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Hong Kong Listing Rules) of our Company
“Industrial Securities”	Industrial Securities Co., Ltd.* (興業證券股份有限公司) (Stock Code: 601377.SH)
“International Offer Shares”	431,046,000 H Shares being initially offered under the International Offering together, where relevant, with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option, the number of which is further subject to adjustment as described in the section “Structure of the Global Offering”
“International Offering”	the offering of the International Offer Shares at the Offer Price outside the United States in accordance with Regulation S or another available exemption from registration requirement of the Securities Act, as further described in the section “Structure of the Global Offering”
“International Underwriters”	the underwriters of the International Offering that are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering, which is expected to be entered into on or around November 28, 2016 by, among others, our Company (for ourselves and on behalf of the Selling Shareholders), Shanghai Dazhong Business Management and the International Underwriters

DEFINITIONS

“Interstellar Capital Investment”	Interstellar Capital Investment Co., Limited, a limited liability company incorporated in Hong Kong on December 19, 2014 and our indirect wholly-owned subsidiary through Shanghai Dazhong Asset Management
“Jiangsu Dazhong Water”	Jiangsu Dazhong Water Group Co., Ltd.* (江蘇大眾水務集團有限公司), (formerly known as Xuzhou Yuanquan Environment Engineering Co., Ltd.* (徐州源泉環保工程有限公司) and Xuzhou Dazhong Yuanquan Environment Industry Co., Ltd.* (徐州大眾源泉環境產業有限公司)), a limited liability company incorporated in the PRC on April 4, 1995 and owned as to 80% by Shanghai Dazhong Environment, 15% by Wang Lu (王璐) and 5% by Wang Jian (王健), both of whom are Independent Third Parties
“Joint Bookrunners” or “Joint Lead Managers”	China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited, BOCI Asia Limited, China Everbright Securities (HK) Limited, China Merchants Securities (HK) Co., Limited and CMB International Capital Limited
“Joint Global Coordinators”	China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited and China Everbright Securities (HK) Limited
“Joint Representatives”	China International Capital Corporation Hong Kong Securities Limited and Haitong International Securities Company Limited
“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited and Haitong International Capital Limited (<i>in alphabetical order</i>)
“Latest Practicable Date”	November 18, 2016, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus
“Lianyungang West Lake Sewage”	Lianyungang West Lake Sewage Co., Ltd.* (連雲港西湖污水處理有限公司), a limited liability company incorporated in the PRC on December 27, 2007 and wholly-owned by Jiangsu Dazhong Water

DEFINITIONS

“Listing”	the listing of our H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around December 5, 2016, on which our H Shares are listed on the Hong Kong Stock Exchange and from which dealings in our H Shares are permitted to take place on the Hong Kong Stock Exchange
“LNG”	liquefied natural gas, refers to natural gas that has been converted into liquid form through a cooling process
“Main Board”	the stock exchange operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Hong Kong Stock Exchange
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies Seeking an Overseas Listing (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated on August 27, 1994 by the PRC State Council Securities Policy Committee and the PRC State Commission for Restructuring the Economic System, as amended, supplemented or otherwise modified from time to time
“Minhang Dazhong Micro-credit”	Shanghai Minhang Dazhong Micro-credit Co., Ltd.* (上海閔行大眾小額貸款股份有限公司), a joint stock company incorporated in the PRC on November 14, 2013 and owned as to 50% by our Company, 20% by Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司), a wholly-owned subsidiary of Dazhong Transportation Group, 10% by Songz Automobile Air Conditioning Co. Ltd.* (上海加冷松芝汽車空調股份有限公司) (held as to 2.16% by our Company), 10% by Shanghai Tofflon Science & Technology Co., Ltd.* (上海東富龍科技股份有限公司), an Independent Third Party, and 10% by Shanghai Gumei Asset Management Co., Ltd.* (上海古美資產經營管理有限公司), an Independent Third Party

DEFINITIONS

“Ministry of Finance”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOHURD”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
“Nantong Area”	Nantong urban area (includes Chongchuan and Gangzha districts, Nantong Development Zone and Sutong Industrial Park) and Rudong County in Jiangsu Province, China
“Nantong Dazhong Gas”	Nantong Dazhong Gas Co., Ltd.* (南通大眾燃氣有限公司), a limited liability company incorporated in the PRC on December 11, 2003 and owned as to 50% by Shanghai Dazhong Gas Investment and 50% by Nantong Gas General
“Nantong Development Zone Gas”	Nantong Development Zone Dazhong Gas Co., Ltd.* (南通開發區大眾燃氣有限公司), a limited liability company incorporated in the PRC on February 5, 2007 and wholly-owned by Nantong Dazhong Gas
“Nantong Gas Equipment”	Nantong Dazhong Gas Equipment Co., Ltd.* (南通大眾燃氣設備有限公司), a limited liability company incorporated in the PRC on April 28, 2004 and owned as to 80% by Nantong Dazhong Gas and 20% by Mr. Yang Jun (楊軍), the general manager of Nantong Gas Equipment
“Nantong Gas General”	Nantong City Gas General Group* (南通市燃氣總公司), a state-owned enterprise and an Independent Third Party
“Nantong Gas Installation”	Nantong Dazhong Gas Installation Engineering Co., Ltd.* (南通大眾燃氣安裝工程有限公司), a limited liability company incorporated in the PRC on May 25, 1990 and wholly-owned by Nantong Dazhong Gas
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“NSSF”	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)

DEFINITIONS

“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees) of not more than HK\$4.25 and expected to be not less than HK\$3.35, such price to be agreed upon by our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares
“Over-allotment Option”	the option granted by us and the Selling Shareholders to the Joint Representatives, pursuant to which we may be required to allot and issue and the Selling Shareholders may be required to sell up to 71,841,000 additional H Shares (representing in aggregate 15% of the H Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section “Structure of the Global Offering”
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Peixian Fountainhead Water”	Peixian Fountainhead Water Operation Co., Ltd.* (沛縣源泉水務運營有限公司), a limited liability company incorporated in the PRC on April 24, 2007 and wholly-owned by Jiangsu Dazhong Water
“Pizhou Fountainhead Water”	Pizhou Fountainhead Water Operation Co., Ltd.* (邳州源泉水務運營有限公司), a limited liability company incorporated in the PRC on December 2, 2004 and owned as to 49% by Jiangsu Dazhong Water, our subsidiary, 15% by Mr. Li Fanqun (李凡群), the standing vice general manager (常務副總經理) of Jiangsu Dazhong Water, 12% by Ms. Lv Xuanhui (呂宣惠), the vice general manager (副總經理) of Jiangsu Dazhong Water, 12% by Mr. Ge Yanwu (葛豔武), the financial controller (財務總監) of Jiangsu Dazhong Water and 12% by Mr. Zhang Wei (張偉), the manager (經理) of Pizhou Fountainhead Water

DEFINITIONS

“PPP reform program”	the public-private-partnership (混合所有制) reform program for SOEs as promoted by the PRC central government
“PRC”	People’s Republic of China
“PRC Company Law” or “Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress of the PRC on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on December 28, 2013 to take effect on March 1, 2014
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC government” or “state”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“PRC Pricing Law”	the Pricing Law of the PRC promulgated by the Standing Committee of National People’s Congress on December 29, 1997, effective from May 1, 1998
“Price Determination Date”	the date, expected to be on or around November 28, 2016 or such other date as may be agreed between our Company and the Joint Representatives, but no later than November 30, 2016, on which the Offer Price is fixed for the purpose of the Global Offering
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“Qionghai Chunsheng Travel”	Qionghai Chunsheng Travel Development Co., Ltd.* (瓊海春盛旅遊發展有限公司), a limited liability company incorporated in the PRC on January 8, 2014 and a directly wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the Securities Act

DEFINITIONS

“Reporting Accountants”	BDO Limited
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“Rudong Dazhong Gas”	Rudong Dazhong Gas Co., Ltd.* (如東大眾燃氣有限公司), a limited liability company incorporated in the PRC on February 8, 2006 and owned as to 70% by Nantong Dazhong Gas and 30% by Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司), an Independent Third Party
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Sale Shares”	the 43,540,000 H Shares and, where relevant, any additional H Shares which may be sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option. The Selling Shareholders will convert an equal number of A Shares held by them to be offered for sale as the Sale Shares, subject to any adjustments as provided in “Structure of the Global Offering”. References to “Sale Shares” include, where the context requires, the A Shares from which the Sale Shares are converted
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Securities Act”	the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“SEISYS”	Shanghai Electronic Intelligence System Co., Ltd.* (上海電科智能系統股份有限公司), a limited liability company incorporated in the PRC on December 12, 2007 and owned as to 28% by our Company, 2.5% by Shanghai Dazhong Technology Co., Ltd.* (上海大眾科技有限公司), a subsidiary of one of our associated companies, 2% by Mr. Zhuang Ziguo (莊自國), chief economist (總經濟師) of Shanghai Dazhong Gas, 2% by Mr. Luo Minwei (羅民偉), chief financial officer of Dazhong Transportation Group and 65.5% by three Independent Third Parties
“Selling Shareholders”	the state-owned shareholders, collectively, who are required to reduce their shareholding pursuant to the relevant PRC regulations relating to disposal of state-owned shares, as further described in the section “Information about this Prospectus and the Global Offering — The Selling Shareholders”
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Coalgas Supply”	Shanghai Coalgas Material Supply Co., Ltd.* (上海煤氣物資供銷公司), a company incorporated in the PRC on January 14, 1992 and wholly-owned by Shanghai Dazhong Gas and is in the process of deregistration
“Shanghai Construction Administration”	Shanghai Municipal Housing and Urban-Rural Construction Administration (上海市住房和城鄉建設管理委員會), formerly known as Shanghai Municipal Urban Construction Administration (上海市市政工程局) or Shanghai Municipal Urban-Rural Construction and Transportation Administration (上海市城鄉建設和交通委員會)
“Shanghai Dazhong Asset Management”	Shanghai Dazhong Asset Management Co., Ltd.* (上海大眾資產管理有限公司), a limited liability company incorporated in the PRC on August 8, 2014 and a directly wholly-owned subsidiary of our Company

DEFINITIONS

“Shanghai Dazhong Business Management”	Shanghai Dazhong Business Management Co., Ltd.* (上海大眾企業管理有限公司), a limited liability company incorporated in the PRC on March 10, 1995 and owned as to 90% by Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) and 10% by three individual shareholders who are Independent Third Parties
“Shanghai Dazhong Capital Equity Investment”	Shanghai Dazhong Group Capital Equity Investment Co., Ltd.* (上海大眾集團資本股權投資有限公司) (formerly known as Shanghai Dazhong Equity Investment Co., Ltd.* (上海大眾股權投資有限公司)), a limited liability company incorporated in the PRC on April 22, 2010 and our indirect wholly-owned subsidiary, owned as to 99% by our Company and 1% by Shanghai Dazhong Environment
“Shanghai Dazhong Chuxing”	Shanghai Dazhong Chuxing Information Technology Co., Ltd.* (上海大眾出行信息技術股份有限公司), a limited liability company incorporated in the PRC on January 5, 2016 and owned as to 29% by our Company, 46% by Dazhong Transportation Group and 25% by Shanghai Dazhong Business Management
“Shanghai Dazhong Environment”	Shanghai Dazhong Environment Industry Co., Ltd.* (上海大眾環境產業有限公司) (formerly known as Shanghai Junji Industrial Development Co., Ltd.* (上海雋基實業發展有限公司) and Shanghai Junji Environment Industry Co., Ltd.* (上海雋基環境產業有限公司)), a limited liability company incorporated in the PRC on July 14, 2003 and our indirect wholly-owned subsidiary, owned as to 88.97% by our Company and 11.03% by Shanghai Dazhong Municipal Development
“Shanghai Dazhong Financial Leasing”	Shanghai Dazhong Financial Leasing Co., Ltd.* (上海大眾融資租賃有限公司), a limited liability company incorporated in the PRC on September 19, 2014 and owned as to 40% by our Company, 25% by FCEEL, 20% by Dazhong Transportation Group, 10% by Shanghai Dazhong Business Management and 5% by Shanghai Chengguang Business Consultation Co., Ltd.* (上海誠光商務信息諮詢有限公司), an Independent Third Party

DEFINITIONS

“Shanghai Dazhong Gas”	Shanghai Dazhong Gas Co., Ltd.* (上海大眾燃氣有限公司) (formerly known as South Shanghai Gas Co., Ltd.* (上海燃氣市南銷售有限公司)), a limited liability company incorporated in the PRC on January 3, 2001 and owned as to 50% by our Company and 50% by Shanghai Gas Group
“Shanghai Dazhong Gas Investment”	Shanghai Dazhong Gas Investment Development Co., Ltd.* (上海大眾燃氣投資發展有限公司), a limited liability company incorporated in the PRC on August 14, 2003 and our indirect wholly-owned subsidiary
“Shanghai Dazhong Jiading Sewage”	Shanghai Dazhong Jiading Sewage Co., Ltd.* (上海大眾嘉定污水處理有限公司), a limited liability company incorporated in the PRC on March 17, 2006 and our indirect wholly-owned subsidiary, owned as to 10% by our Company and 90% by Shanghai Dazhong Environment
“Shanghai Dazhong Municipal Development”	Shanghai Dazhong Municipal Development Co., Ltd.* (上海大眾市政發展有限公司), a limited liability company incorporated in the PRC on September 15, 2003 and a directly wholly-owned subsidiary of our Company
“Shanghai Dazhong Transportation Commerce”	Shanghai Dazhong Transportation Commerce Co., Ltd.* (上海大眾交通商務有限公司), a limited liability company incorporated in the PRC on June 25, 2008
“Shanghai Gas Group”	Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司), a limited liability company incorporated in the PRC on February 12, 2004 and a directly wholly-owned subsidiary of Shenergy (Group) Company Limited* (申能(集團)有限公司), both entities being our connected persons and state-owned enterprises
“Shanghai Hangxin”	Shanghai Hangxin Investment Management Co., Ltd.* (上海杭信投資管理有限公司), a limited liability company incorporated in the PRC on April 22, 2004 and owned as to 16.13% by our Company and 83.87% by 10 Independent Third Parties
“Shanghai-Hong Kong Stock Connect”	a pilot program approved by CSRC and SFC in April 2014 to establish mutual stock access between mainland China and Hong Kong

DEFINITIONS

“Shanghai South Gas”	Shanghai South Gas Development Co., Ltd.* (上海市南燃氣發展有限公司), a limited liability company incorporated in the PRC on April 18, 2001 and wholly-owned by Shanghai Dazhong Gas
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Shanghai Stock Exchange Listing Rules”	The rules governing the listing on the Shanghai Stock Exchange
“Shanghai Urban Area”	areas inside the outer ring of Shanghai, including Huangpu, Xuhui, Changning, Jing’an, Putuo, Hongkou, Yangpu, Minhang districts and part of Pudong districts
“Shanghai Weiming Biochemistry”	Shanghai Weiming Biochemistry Co., Ltd.* (上海衛銘生化股份有限公司), (formerly known as Shanghai Dazhong Lingwei Biochemistry Co., Ltd.* (上海大眾凌偉生化股份有限公司)), a joint stock company incorporated in the PRC on December 18, 1992 and owned as to 87.67% by Hainan Dazhong Ocean, 4.44% by Dazhong Transportation Group, 4.00% by Shanghai Weiming Biochemistry Co., Ltd. Employee Shareholding Assembly* (上海衛銘生化股份有限公司職工持股會) and 3.89% by Shanghai Jinyi Industry Head Office* (上海金翼實業總公司), an Independent Third Party
“Shanghai Xiangyin Tunnel Construction”	Shanghai Xiangyin Road Tunnel Construction Development Co., Ltd.* (上海翔殷路隧道建設發展有限公司), a limited liability company incorporated in the PRC on September 24, 2003 and owned as to 87.16% by our Company and 12.84% by Shanghai Dazhong Municipal Development
“Shanghai Xingye Venture Capital”	Shanghai Xingye Venture Capital Co., Ltd.* (上海興燁創業投資有限公司), a limited liability company incorporated in the PRC on June 4, 2008 and owned as to 20% by our Company and 80% by six Independent Third Parties
“Shanghai Zhonggong Information Service”	Shanghai Zhonggong Information Service Co., Ltd.* (上海眾貢信息服務有限公司), a limited liability company incorporated in the PRC on July 12, 2016 and a directly wholly-owned subsidiary of our Company
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Shareholders’ Agreement of Shanghai Dazhong Gas”	the shareholders’ agreement dated as of September 12, 2001 relating to the operation of Shanghai Dazhong Gas after the Group’s investment in it between our Company and Shanghai Municipal Assets Management and Development Co., Ltd.* (上海市政資產經營發展有限公司). The rights and obligations of Shanghai Municipal Assets Management and Development Co., Ltd. under the agreement were assigned to Shanghai Gas Group in 2003 when all its assets were allocated to Shanghai Gas Group pursuant to the instructions of the PRC government authorities
“Shares”	shares in the capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
“Shenzhen Capital Group”	Shenzhen Capital Group Co., Ltd* (深圳市創新投資集團有限公司), a limited liability company incorporated in the PRC on August 25, 1999 and owned as to 13.93% by our Company and 86.07% by 12 Independent Third Parties
“SOE”	state-owned enterprise
“South Puxi Area”	an area in Shanghai located south of Suzhou River and west of Huangpu River covering Huangpu district, Xuhui district, Changning district, part of Minhang district, Jing’an District and Putuo District, and Qingpu Xujing area
“Stabilizing Manager”	China International Capital Corporation Hong Kong Securities Limited
“State Administration of Taxation” or “SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Suchuang Gas”	Suchuang Gas Corporation Limited* (蘇創燃氣股份有限公司) (Stock Code: 1430.HK), a company listed on the Main Board of the Hong Kong Stock Exchange
“Supervisors”	the supervisors of our Company
“Supervisory Committee”	the supervisory committee of our Company

DEFINITIONS

“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by SFC, as amended, supplemented or otherwise modified from time to time
“TOT”	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the operation and maintenance of municipal facilities in the concession period, during which the enterprise can charge service fees to cover its costs of investment, operation and maintenance and obtain reasonable returns, while upon the expiration of the concession period, the relevant facilities will be transferred back to the government
“Track Record Period”	the period comprising the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“VAT”	Value-added tax
“ White Form eIPO ”	applying for Hong Kong Public Offer Shares to be issued in your own name by submitting applications online through the designated website for the White Form eIPO Service Provider, www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Xuhui Onlly Micro-credit”	Shanghai Xuhui Onlly Micro-credit Co., Ltd.* (上海徐匯昂立小額貸款股份有限公司), a PRC limited liability company established on November 3, 2012 and owned as to 20% by our Company, 30% by Shanghai Jiada Onlly Co., Ltd.* (上海交大昂立股份有限公司), whose chairman is also our Chairman Mr. Yang Guoping (楊國平), 10% by Shanghai Yiyang Landscaping Co., Ltd.* (上海怡陽園林綠化有限公司), a 99.90% owned subsidiary of Shanghai Dazhong Business Management, and 40% by two Independent Third Parties
“Xuzhou Area”	Xuzhou urban area and several adjacent counties and cities, namely, Sanbahe, Jiawang, Peixian, Pizhou and Lianyungang
“Xuzhou Fountainhead Sewage”	Xuzhou Fountainhead Sewage Co., Ltd.* (徐州源泉污水處理有限公司), a PRC limited liability company established on December 19, 2007 and owned as to 49% by Jiangsu Dazhong Water, our subsidiary, 15% by Mr. Li Fanqun (李凡群), the standing vice general manager (常務副總經理) of Jiangsu Dazhong Water, 12% by Ms. Lv Xuanhui (呂宣惠), the vice general manager (副總經理) of Jiangsu Dazhong Water, 12% by Mr. Ge Yanwu (葛豔武), the financial controller (財務總監) of Jiangsu Dazhong Water and 12% by Mr. Lu Lei (陸雷), the vice manager (副經理) of Xuzhou Fountainhead Sewage
“Xuzhou Water Operation”	Xuzhou Dazhong Water Operation Co., Ltd.* (徐州大眾水務運營有限公司), a PRC limited liability company established on April 12, 2010 and wholly-owned by Jiangsu Dazhong Water

In this prospectus, the terms “associate”, “close associate”, “connected person”, “core connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “” is for identification purpose only.*

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and strategies and plans for the development of existing and new businesses, our ability to implement such strategies and plans, and the expected timetable of such implementation;
- our financial condition;
- our dividend distribution plans;
- our ability to reduce costs;
- the regulatory environment, as well as the general industry outlook, for the public utilities industry in China;
- capital market development;
- certain statement in the sections headed “Risk Factors”, “Regulatory Overview”, “Business”, “Financial Information”, and “Future Plans and Use of Proceeds” with respect to trends in interest rates, exchange rates, prices, volumes, operations, margins, risk management and overall market trend;
- further developments in, and competitive environment for, the PRC and public utilities industry; and
- general economic condition.

The words “aim”, “anticipate”, “believe”, “contemplate”, “continue”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “predict”, “project”, “endeavour”, “schedule”, “seek”, “should”, “target”, “will”, “would”, “might” and the negative forms of these terms, as well as similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any

FORWARD-LOOKING STATEMENTS

forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Any of these risks could materially and adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC and most of our operations are conducted in the PRC, which is governed by a legal and regulatory environment that may differ from that of other jurisdictions. For more information concerning the PRC and certain material matters discussed below, please see “Regulatory Overview”, “Appendix III – Taxation”, “Appendix IV – Summary of Principal Legal and Regulatory Provisions and “Appendix V – Summary of The Articles of Association” to this prospectus.

There are certain risks and uncertainties involved in our operations and this Global Offering, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business; (ii) risks relating to doing business in the PRC; and (iii) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS

Piped gas procurement and retail prices are controlled and adjusted from time to time by the competent government authorities and we do not have control over such prices or adjustments. Our profit may be materially and adversely affected if we are unable to pass on increases in procurement prices to our end users in a timely manner.

According to the PRC Pricing Law, the PRC government may direct, guide or adjust the prices of public utilities. NDRC sets the gateway station prices of piped gas, and makes adjustment to such prices from time to time. Local DRC and/or price bureau set the benchmark and/or maximum piped gas retail prices generally with a reference to the gateway station prices. Upon approval from the local municipal government, local DRC and/or price bureau may adjust the benchmark and/or maximum retail prices from time to time due to inflation, in response to changes of piped gas procurement prices mandated by NDRC or local DRC, or for other considerations. In Shanghai, Shanghai DRC is the competent government authority to set the piped gas retail prices. In Nantong Area, Nantong Price Bureau is the competent government authority to set the piped gas retail prices. Please refer to the section “Regulatory Overview — The laws and Regulations of the PRC relating to the Municipal Public Utilities Industry — Natural Gas Supply and Sales Business — Natural gas pricing mechanism” for further information of pricing of piped gas in the PRC. In Shanghai, our procurement price of piped gas is set by Shanghai Construction Administration. In Nantong Area, our procurement price of piped gas is negotiated with the upstream piped gas supplier with a reference to the gateway station prices.

The competent local government authorities for setting the procurement prices and retail prices of piped gas are different entities and do not always act in concert. In addition, the procurement prices and retail prices of piped gas are affected by different factors and adjusted

RISK FACTORS

by the competent government authorities under different considerations. The piped gas procurement prices are generally affected by energy prices in the upstream market as well as the relevant government policies on energy consumption. The local piped gas retail prices are closely related to the public interest and social welfare of the relevant areas. Changes of the local piped gas retail prices are sometimes preceded by public hearing process. As a result, there is generally a time lag between the change in our procurement price and the change in our retail price. Consequently, any procurement price increase mandated by the competent governmental authorities may negatively impact our profit margin during this period. In addition, as both the procurement prices and retail prices of piped gas are tightly regulated by the competent government authorities, we generally do not have any effective means to timely mitigate the adverse impact of such time lag, other than requesting the competent government authorities to consider increasing the piped gas retail prices in response to an increase in the piped gas procurement prices. It is also generally difficult to predict the length of such time lag. If we fail to pass the increase in the procurement price of piped gas on to our customers through an increase of our retail price in a timely manner, or at all, we may not be able to maintain our profitability, and our results of operations and financial position may be materially and adversely affected.

Our business operations are subject to significant operational and transmission risks relating to piped gas and potential accidents arising from our operations and other unforeseen risks. Our insurance coverage might not be adequate to cover all the risks we may face.

We conduct a hazardous business due to the flammable and explosive nature of piped gas. We deliver piped gas received from the city gateway station through our proprietary underground gas pipeline network to end users' pipelines. Our main assets include, among others, natural gas pipelines and interconnection infrastructure. Operating these assets involves risks and hazards, including equipment failures, natural disasters, environmental hazards and industrial accidents. Significant operational hazards and natural disasters may cause interruptions or suspension in our operations that could have a material adverse impact on our business and financial condition, as well as our reputation. These disasters may also cause significant personal injury or death, severe damage to and destruction of property, plant and equipment, and contamination of or damage to the environment. We may also face criminal liabilities imposed by the government and civil liabilities or fines as a result of damage suffered by third parties, which may require us to make indemnification payments in accordance with applicable laws.

We have obtained insurance policies to cover certain risks associated with our business. Please refer to the section headed "Business — Insurance" in this prospectus for details. We cannot assure you that our insurance policies are adequate or that we will be insured fully against all risks and losses that may arise. If we incur a material loss or a loss that significantly exceeded the limits or coverage of our insurance policies, our business, financial condition and

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operating results may be materially and adversely affected. In addition, our insurance policies may be subject to review by our insurers from time to time, and we cannot assure you that we will be able to renew these policies on similar or acceptable terms, or at all.

Any instability in, shortages of or disruption to, the supply of piped gas to us from our upstream piped gas suppliers could materially and adversely affect our business. We may also be materially and adversely affected by a shortage of piped gas in the PRC in general.

Piped gas constitutes the major raw material for our overall business operations. Due to the highly regulated nature of the piped gas supply industry in the PRC, during the Track Record Period and as of the Latest Practicable Date, Shanghai Gas Group and CNPC were our sole upstream piped gas suppliers in Shanghai and Nantong Area, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2016, our procurement cost of piped gas from Shanghai Gas Group and CNPC was RMB2,594.2 million, RMB2,754.2 million, RMB2,817.4 million and RMB1,621.4 million, respectively, representing 75.0%, 74.6%, 72.5% and 75.4% of our total cost of sales of the same periods, respectively.

Prior to December 2015, procurement of piped gas from Shanghai Gas Group was made pursuant to relevant government rules and regulations, which set forth certain obligations for upstream piped gas suppliers such as Shanghai Gas Group. We entered into a framework gas purchase agreement and a supplemental agreement in December 2015 with Shanghai Gas Group to govern the terms and conditions of our gas procurement. For more details, please refer to the section “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement — Piped gas suppliers — Piped gas supplier in Shanghai”. In 2013, 2014 and 2015 and the six months ended June 30, 2016, we purchased 1,123.4 million m³, 1,057.2 million m³, 1,029.9 million m³ and 594.8 million m³, respectively, of piped gas from Shanghai Gas Group, and our cost of purchase from Shanghai Gas Group amounted to RMB2,342.6 million, RMB2,392.1 million, RMB2,462.3 million and RMB1,450.2 million, respectively, during the respective periods. For Nantong Area, we entered into a framework gas purchase agreement in July 2011, and typically enter into an annual supplemental agreement, with CNPC to govern the terms and conditions of our gas procurement. For more details, please refer to the section “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement — Piped gas suppliers — Piped gas supplier in Nantong Area”. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, we purchased 127.1 million m³, 155.6 million m³, 163.4 million m³ and 94.3 million m³, respectively, of piped gas from CNPC, and our cost of purchase from CNPC amounted to RMB251.6 million, RMB362.0 million, RMB355.2 million and RMB171.2 million, respectively, representing 94.8%, 95.5%, 97.6% and 97.1% of our total gas procurement cost in Nantong Area during the respective periods. We also procure a small amount of LNG and CNG from certain third party suppliers and sell it to end users in Nantong Area. The procurement cost for LNG and CNG accounted for 5.2%, 4.5%, 2.4% and 2.9% of our total gas procurement cost in Nantong Area.

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As we do not maintain a reserve of piped gas, we may need to source alternative supply of piped gas or even temporarily suspend our piped gas supply to our customers if we receive an insufficient supply of piped gas from our suppliers. We may face a shortage of natural gas due to reasons beyond our control, such as a disruption of natural gas supply to our upstream suppliers or the occurrence of any adverse political and economic conditions in the natural gas exporting countries, resulting in a significant disruption in the global market for piped gas. If we are not able to timely source sufficient amount of piped gas on commercially acceptable terms, or at all, our business, financial condition and operating result would be materially and adversely affected.

We operated our piped gas supply business in the absence of concession rights or concession agreement during the Track Record Period and as of the Latest Practicable Date.

In accordance with the applicable PRC laws and regulations, we are required to obtain and maintain various licenses and permits in order to conduct our business. The licenses and permits necessary for these business operations are set out in the section “Regulatory Overview”. If we develop and operate our projects without the required approvals, permits, licenses and certificates, we may be subject to fines and penalties imposed by the relevant governmental authorities. In particular, we need concession rights to operate our public utility service businesses in the particular areas exclusively. During the Track Record Period and as of the Latest Practicable Date, we operated our piped gas supply business in Shanghai and Nantong Area in the absence of concession rights or concession agreement, primarily because the competent local government authorities are currently formulating relevant regulations and procedures pursuant to which concession rights will be granted to local piped gas suppliers or concession agreements are to be signed. For more details, please refer to the section “Business — Piped Gas Supply Operations — Operations in the Absence of a Concession Agreement in Shanghai” and “Business — Piped Gas Supply Operations — Operations in the Absence of a Concession Agreement in Nantong Area”. When the relevant regulatory framework and procedures are implemented, we need to negotiate concession agreements with the competent local government authorities pursuant to which concession rights to operate piped gas supply business can be granted to us. Based on the terms of the final concession agreements, our current operations may need to be adjusted. For example, we might be required to pay a concession fee or provide monetary guarantee during the concession period. If we are not able to make required adjustments in a timely and cost-efficient manner, our results of operations and financial position may be adversely affected.

In addition, some of the approvals, licenses, permits and certificates are subject to periodic review and renewal by the governmental authorities and the standards of compliance required in relation thereto may change from time to time. Any changes in the existing policies by the governmental authorities resulting in the imposition of more burdensome requirements may result in our failure to obtain or maintain such approvals, permits, licenses and certificates. Any such failure could subject us to fines and other penalties, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

RISK FACTORS

Shanghai Gas Group may change its current practice of not strictly enforcing provisions under the relevant framework gas procurement agreement in relation to payment schedule and volume-based extra payment obligations.

Our current framework gas procurement agreement with Shanghai Gas Group was entered into on December 16, 2015, which contains certain provisions in relation to payment schedule and volume-based additional payment obligations. Such obligations did not exist prior to, and generally have not been strictly enforced by Shanghai Gas Group since, the execution of the framework gas procurement agreement. For example, the average turnover days of our trade payables due to Shanghai Gas Group was approximately 96 days, 130 days and 132 days in 2013, 2014 and 2015, respectively. The framework gas procurement agreement provides that we shall make payment within three days of the receipt of the monthly gas purchase statement and Shanghai Gas Group shall be entitled to late fee on delay of such payment. In practice, the average turnover days of our trade payables due to Shanghai Gas Group was approximately 116 days for the six months ended June 30, 2016, and Shanghai Gas Group had not made any attempt or demonstrated any intention to demand any late fee or volume-based additional payment after the execution of the framework gas procurement agreement and up to the Latest Practicable Date. However, we cannot assure you that Shanghai Gas Group will not change its existing practice. Our trade payables due to Shanghai Gas Group were RMB1,053.0 million as of June 30, 2016. If Shanghai Gas Group demands that we strictly comply with such payment schedule or volume-based additional payment obligations, such payments may have a material adverse impact on our short-term liquidity and cash flow. For more details, please refer to the section “Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement — Piped gas suppliers”.

There may be unauthorized tampering of our gas meters which could affect our ability to measure and collect fees for our sale of piped gas.

In the past, there have been incidents of unauthorized tampering of our gas meters by our customers in attempt to affect our ability to record the volume of piped gas used by the relevant customers. Although we have taken measures to prevent unauthorized alteration or tampering with our gas meters, we cannot assure you that such incidents will not happen again.

In the event that our gas meters are tampered with, the measurement and reading of the volume of piped gas used by the relevant customers may be significantly less than the actual volume supplied by us, which may adversely affect our profit in relation to our piped gas supply operations.

Our public utility service business requires significant initial capital commitment and our inability to borrow necessary funds for our business or refinance our existing debt at reasonable rates, or at all, could adversely affect our financial condition and results of operations, and prevent us from fulfilling our financial obligations and business objectives.

Our public utility service business typically requires significant initial capital commitment. We are responsible for the costs of construction of the underground pipeline network, wastewater treatment projects or ancillary facilities and public infrastructure projects. We

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typically receive no funding from local governments before or during the construction phase, when we make substantial initial capital investments. In addition, during the operational phase of our piped gas supply business and our wastewater treatment and public infrastructure projects, we are responsible for the cost of operations, maintenance and repair of the pipeline network and the facilities. For our piped gas supply business and our wastewater treatment and public infrastructure projects through BOT or TOT arrangements, we receive payments after we supply the piped gas to customers or commence commercial operation of the relevant facilities. For our BT projects, we usually begin receiving payments after we enter into the relevant repurchase agreements with our customers.

We require a considerable amount of capital to purchase property, plant and equipment to construct and operate pipeline network, the wastewater treatment plants and their ancillary facilities. In 2013, 2014 and 2015 and the six months ended June 30, 2016, we incurred capital expenditures of RMB467.6 million, RMB674.8 million, RMB558.6 million and RMB194.6 million, respectively. We expect to incur capital expenditures of approximately RMB552.5 million and RMB466.3 million for purchase of property, plant and equipment in 2016 and 2017, respectively, based on our current project portfolio, without taking into account of any additional projects we may procure. For more details, please refer to “Financial Information — Capital Expenditure”. We typically finance the remaining project costs using shareholder capital, retained earnings and external borrowings. We will continue to finance the development of our existing and new projects by securing new financing agreements. However, there can be no assurance that we will be able to obtain such loans on terms acceptable to us, or at all. Furthermore, our loan agreements generally provide for a loan term ranging from six months to ten years while our concession agreements generally cover a period of 20 to 30 years. We cannot assure you that we will be able to renew our loans for our projects on terms that are acceptable to us or in the amounts we need or at the time we need upon the expiration of the current term of the loans or at all and in such case we may not have sufficient funds to finance the operating needs of our projects. In addition, we may not be able to obtain additional financing on terms that are acceptable to us, which would affect our ability to fully implement our development plans.

Our ability to obtain project financing is subject to a number of uncertainties, including, among other things, (i) our financial condition, results of operations, cash flows and credit history; (ii) the conditions of the global and domestic financial market; and (iii) changes in PRC monetary policy with respect to bank lending practices and conditions. If adequate working capital is not available to us in a timely manner and on acceptable terms or at all, we may not be able to develop or expand our business and, therefore, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Excessive pollution levels in the wastewater to be treated by our treatment plants may adversely affect our earnings and may damage our facilities.

Our wastewater treatment facilities are built to treat wastewater to specified quality standards. However, the incoming wastewater to be treated by our plants may contain pollutants exceeding the types and quantity contemplated during the design and construction of the

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plants, due to, among other things, industrial accidents, expansion of the industries in the surrounding area of our wastewater treatment facilities, excessive discharges of pollutants, oil spills, or other events beyond our control. For example, in April 2016 one of our plants in Xuzhou Area received incoming wastewater with pollution level exceeding our treatment capability, and as a result the discharged water exceeded the relevant pollution standard and a penalty of RMB1.8 million was imposed on us by the relevant government authority. For more details, please refer to the section “Business—Compliance and Legal Proceedings”. Any excessive pollution levels of the wastewater coming into our treatment plants may adversely affect the operating costs and earnings of such plants due to the higher costs of treating the wastewater to attain the quality standard specified in the agreements with our customers. In addition, there may be disagreements as to the extent to which the incoming wastewater is considered to include levels of pollutants exceeding those set forth in our agreements. We may need to spend additional time and effort to negotiate with our customers for compensation, including agreeing an upward adjustment in the tariff payable to us.

Furthermore, we may be subject to governmental sanctions and/or liquidated damages if our treated wastewater fails to meet applicable governmental standards due to excessive pollution of the incoming wastewater, and such instances may lead to the suspension of our operations pending rectification, which in turn could adversely affect our reputation. Such excessive pollution could also damage or accelerate the deterioration of our wastewater treatment facilities, and could materially and adversely affect our business, financial condition, results of operations and prospects.

We may not be able to adjust the tariffs charged for our wastewater treatment services in a timely manner to fully reflect any increase in the actual costs of our concession projects.

Our concession agreements relating to our wastewater treatment services specify the circumstances under which we can request adjustment of the tariffs we charge, including, but not limited to, changes in relevant regulations with regard to incoming wastewater or raw water to be treated and the quality standards for treated wastewater or raw water. Generally our concession agreements provide for periodic assessments of unit prices based on the adjustment formula specified in the relevant concession agreements. However, we cannot assure you that the relevant government authorities will follow such procedures and increase the unit prices in a timely manner or that the increased unit prices will sufficiently compensate us for our increased cost. If the local governments or their designees fail to adjust the wastewater treatment unit prices in accordance with the terms of the concession agreements, we can request the relevant local governments to compensate us for any losses incurred. However, we cannot assure you that the local governments will have sufficient funds to compensate us. We also cannot assure you that the relevant government authorities will not reduce the unit prices correspondingly should the relevant benchmark prices or key cost indicators decrease. If we incur significantly higher operating costs without a corresponding

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increase in tariffs or if a reduction in tariffs occurs, we may not be able to sustain our profitability or may even incur a loss, and our financial condition and results of operations may be materially and adversely affected.

Our business, results of operations and financial condition may be adversely affected if there is any significant downtime or decrease in utilization of our wastewater treatment plants or if our plants fail to achieve the expected levels of utilization due to insufficient incoming wastewater.

Our wastewater treatment plants are subject to normal wear and tear in the course of construction and operation. As a result, our plants may require extended downtime for repairs and maintenance. However, if the time and cost required for such repairs and maintenance exceeds our expectations, our operations may be affected for a period longer than anticipated and our revenue from the relevant project may be less than the original estimate. In addition, if any extraordinary or extensive repairs to our facilities or equipment are required due to any significant or catastrophic event or otherwise, our facilities could require significant downtime during which they would not be able to treat wastewater as required under our concession agreements, which in turn, could cause our customers to terminate their agreements with us or subject us to claims for damages.

In addition, each of our projects has been or will be built to a specified designed capacity in accordance with the terms of the relevant agreements with our customers. For more details on the average utilization rates of our wastewater treatment plants during the Track Record Period, please refer to the section “Business — Our Public Utility Service Business — Wastewater Treatment Operations”. The utilization rates of our wastewater treatment facilities depend on a number of factors, including the weather conditions, the local population size, the level of urbanization, access to a pipeline network and the general economic conditions in the areas serviced by the relevant facilities. Our decision to enter into a project agreement may depend on our expectation of future increases in the quantity of wastewater to be treated, which may not be realized.

Any subsidy currently or previously available to us could be reduced or discontinued.

During the Track Record Period, we received subsidies granted by the PRC government as financial incentives to encourage our development and investment in the PRC wastewater industry. In 2013, 2014 and 2015 and the six months ended June 30, 2016, we recorded government grants of approximately RMB19.8 million, RMB14.8 million, RMB12.7 million and RMB4.6 million, respectively.

Although our concession agreements usually provide that the local government will assist us in obtaining government subsidies, we cannot predict or guarantee the amount of subsidies to be granted for any specific project. If the relevant governments deduct or even cancel the current subsidies or refuse to grant any subsidies for any future projects, our revenue from our wastewater treatment projects could be adversely affected.

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We recognize revenue during the construction phase of our BOT projects, but typically do not receive any actual payments until the operational phase of these BOT projects.

For each of our BOT projects, once the facility becomes operational, we receive regular, usually monthly, cash payments from the relevant government authorities based on the concession agreements. We typically do not receive payments from the relevant government authorities during the construction phase of these projects. However, in accordance with IFRS, we generally recognize revenue from these projects during both the construction phase and the operational phase. We would record revenue during the construction phase on the basis of percentage of completion method, based on the cost of construction incurred. The revenue recognized from the construction phase of a BOT project is also recognized as a service concession receivable to be offset against the allocated amount after receipt of the cash tariff and other payments received related to the relevant project during the operational phase. Service concession receivables for BOT projects are settled during the concession periods of the relevant BOT projects, which can be up to 30 years. There is no guarantee that the service concession receivables would be fully settled before the expiration of the relevant concession period, which may cause an impairment of our financial assets and adversely affect our results of operations and liquidity.

Our BOT, TOT and BT projects require us to make significant investments and expose us to, among other risks, the risks of incorrect estimates or forecasts of the percentage of completion and costs of construction, maintenance and repair of the projects and the revenue to be derived from their operation.

We are subject to the risk of cost overruns during the construction phase of our BOT, TOT and BT projects, including the renovation and/or expansion of existing projects. Many of the factors causing cost overruns are beyond our control, such as increases in raw material prices or the failure of equipment vendors to perform their contractual obligations. If the actual costs are significantly higher than our estimates and if we are not able to obtain sufficient compensation from our customers to offset the cost overruns, our business, financial performance and prospects could be materially and adversely affected.

We make our decision to undertake BOT and TOT projects in part based on our estimates of the demand for our services in the regions where our projects are located and the utilization rates of our facilities. However, we cannot guarantee that the actual demand for our services or the utilization rates of our facilities will always be in line with our estimates.

Moreover, we cannot assure you that our wastewater treatment projects will operate profitably during their respective concession periods, as the profitability of our plants could be affected by many factors beyond our control, including government policies and increasing operational costs or maintenance costs which cannot be timely offset by increases in our unit prices. We cannot assure you that the revenue derived from the operation of our BOT and TOT projects will cover our initial investment and generate the expected profits.

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Furthermore, our BOT and TOT projects are subject to operational risks given their long concession terms. For our BOT and TOT projects, we are responsible for all repairs and maintenance of the facilities. However, if our facilities fail to function as long or as efficiently as we have estimated, we may need to pay more for replacement parts or repairs and maintenance of the facilities or may experience longer shut-down periods than we originally anticipated. As a result, we may experience reduced profitability or losses.

Our customers in the wastewater treatment and public infrastructure project businesses are government entities and our performance may be significantly affected by government spending on infrastructure and other projects.

Our customers in the wastewater treatment and public infrastructure project businesses are government entities. To the extent that our projects are funded by local governments, they may be subject to delays or changes as a result of changes in the local governments' budgets or for other policy considerations. Local government spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in the PRC economy and changes in local government policies. As a result, we have significant exposure to risks associated with contracting with local governments in the PRC. Changes in government budgets and policies relating to our projects and any deterioration in the liquidity and cash flow of the local governments which are our customers could result in delays in project commencement or completion, adverse changes to such projects or a withholding of, or delay in, payment to us.

Furthermore, in some circumstances, local governments may require us to change our construction methods, equipment or other performance terms; direct us to reconfigure our designs or purchase specific equipment; or require us to undertake additional obligations or change other contractual terms, thereby subjecting us to additional costs. Resolution of any disagreement with local governments with respect to such changes may be time-consuming and may cause us to incur additional costs.

Moreover, any disputes with government entities and other public organizations could potentially lead to contract termination if unresolved or may take a considerably longer time to resolve the disputes with counterparties in the private sector, and payments due to us from these entities and organizations may be delayed as a result. In addition, such entities and organizations may claim sovereign immunity as a defense to any claims we may make against them. If a government entity or other public organization terminates a contract with us, our projects could be reduced, our business plans may need to be modified and our business and financial performance may be materially and adversely affected.

Our customers may make claims against us and/or terminate our BOT, TOT or BT agreements in whole or in part should we fail to meet the requirements in the relevant agreements or fully satisfy their other requirements and expectations.

The development and operation of our wastewater treatment projects and our public infrastructure projects are subject to the terms of our service concession agreements with our customers. According to our service concession agreements, our customer can withdraw the

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concession and terminate the agreement without compensation if we fail to complete the construction according to the specifications as required by the relevant agreements for our projects, or if the treated wastewater discharged from our facilities under our BOT, TOT or BT projects fails to meet the standards required by the agreements and we fail to rectify such failure within the contractually stipulated period. In the event that a local government withdraws the concession for any of our BOT, TOT or BT projects, the tariff payments we have received up to termination may not be sufficient to cover our investment cost and we may not receive any compensation for the investment we have made, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We cannot assure you that the development of our projects in the planning or development phase will not be delayed or that these projects will meet the requirements and expectations of our customers. Failure to implement or complete projects to the satisfaction of our customers or failure to comply with relevant governmental policies and standards, or defective systems may lead to claims against us and/or the termination of our services in whole or in part prior to the expiration of the concession term. Such failure may arise as a result of unsatisfactory project design or workmanship, staff turnover, human error, untimely delivery of services, default by our contractors, or misinterpretation of, or failure to adhere to, regulations and procedures by us or our contractors, some of which may be beyond our control. The claims against us and/or the termination of our services in whole or in part prior to the expiration of the concession term may adversely affect our business, financial condition, results of operations and prospects. In addition, in the event we are found liable for delays or failure to complete our projects to the satisfaction of our customers, we may be required to compensate our customers for their losses, which could further materially and adversely affect our business, financial condition, results of operations and prospects.

Our pipeline construction and maintenance, wastewater treatment and public infrastructure projects are subject to construction and operational risks.

Pipeline construction and maintenance in our piped gas supply business, developing wastewater treatment projects and public infrastructure projects involve various risks, including, amongst others, construction and operational risks. The construction and operation of our projects, including any new project that we undertake, could be materially and adversely affected due to a number of factors, including:

- the contractors hired by us may not be able to complete the construction or installation work of our projects on time, within budget or to the specifications or quality, safety and environmental standards we have set out in our contracts with them;
- shortages of, and price increases in, equipment, materials or labor;
- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our projects;

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- accidents during construction or operations of our wastewater treatment facilities;
- extreme adverse weather conditions, or fire, typhoons or other natural disasters;
- engineering, construction, regulatory and equipment problems;
- raw material suppliers for our projects may not supply the required raw materials in the expected quantities or quality or at all;
- governmental or other statutory approvals or other approvals that are required for construction, expansion or operation of our projects may be delayed or denied;
- delays in construction or commercial operation could increase finance cost of our business operations; and
- we may not be able to accurately estimate the pollutant levels in the wastewater entering our wastewater treatment facilities.

We cannot assure you that the construction and operation of our projects will be successful. We may not achieve the expected economic benefits from our projects and the failure to obtain the expected economic benefits could materially and adversely affect our business, financial condition and operational results.

Our micro-credit and financial leasing businesses are relatively new and we have limited experience in operating such businesses.

We entered into the micro-credit business in November 2013 and the financial leasing business in September 2014. We have a limited operating history in these businesses. In 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue from our micro-credit and financial leasing businesses was nil, RMB22.3 million, RMB50.5 million and RMB42.2 million, respectively, representing nil, 0.5%, 1.1% and 1.7%, respectively, of our total revenue in the same periods. Although we have experienced revenue growth during the Track Record Period, we cannot assure you that our revenue from these businesses will continue to increase at previous rates or at all, or that we will be able to operate profitably in future periods. Our limited operating history in the micro-credit and financial leasing businesses makes the prediction of future results of operations in these businesses difficult and, therefore, past revenue growth experienced by us should not be taken as indicative of our future performance. You should consider our micro-credit and financial leasing businesses and prospects in light of the risks, uncertainties, expenses and challenges that we will face as an early-stage operator in new, rapidly evolving and challenging markets such as the microfinance and financial leasing industries.

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Our financial services business is subject to various credit risks and our credit risk management may not be adequate.

We provide financial services, including micro-credit loans and financial leasing to individual and corporate customers. If our customers do not fulfill their respective contractual obligations or duties, the results of operations, financial condition and profitability of our financial services business could be adversely affected.

- *Portfolio quality.* Our financial services involve providing micro-credit loans and financial leasing to customers. Our main customers of micro-credit business are local micro- and small-enterprises and individuals. Non-performing loans, guarantees and financial leasing resulting from default of customers will have an adverse effect on the results of operations of our financial services business. The sustainable growth of our financial services business mainly depends on our ability to effectively manage the credit risk and maintain the quality of our portfolio. Any defect in the credit risk management policy of our relevant subsidiaries, or any credit risks beyond our control, may have an adverse impact on the results of operations, financial condition and profitability of our financial services business.
- *Loss.* Although we have made allowance for impairment losses based on assessment of various factors affecting the portfolio of our financial services business, the actual losses in the future may exceed our current allowance and we may need to make additional allowance for impairment losses. As such, the results of operations, financial condition and profitability of our financial services business may be adversely affected.
- *Security.* A substantial portion of our loan portfolio and financial leasing are secured by collaterals or guarantees. Any significant decline in the value of the collateral or deterioration of the financial condition of the guarantors or any failure by us to enforce our rights as a creditor may adversely affect the results of operations, financial condition and profitability of our financial services business.
- *Concentration.* A majority of the customers for our financial services business are small and medium sized enterprises, which generally have fewer financial resources in terms of capital or borrowing capacity and are more vulnerable to an economic downturn. Our micro-credit and financial leasing businesses are also concentrated in Shanghai. If the credit profiles of these customers deteriorate, or the economy of Shanghai slows down, the asset quality, financial condition and results of operations of our financial services business may be adversely affected.

We seek to manage our credit risk exposure through customer due diligence, credit approvals, credit limits, security arrangements and portfolio monitoring. While these procedures are designed to provide us with the information needed to implement adjustments where necessary and to take proactive corrective actions, there can be no assurance that such

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measures will be effective in protecting us from credit risk exposure. For example, our appraisal and monitoring of the collateral and guarantees is based on limited information available to us and might be inaccurate, unreliable or outdated. We may not be able to detect fraud from the information provided by our customers when applying for our services.

We may not be able to detect and prevent fraud or other misconduct committed by our employees or other parties in our financial services business.

We may be exposed to fraud or other misconduct committed by our employees, customers or other third parties in our financial services business. For example, an employee may approve a loan application beyond authorized credit limits or collude with customers to hide key customer information in order to help such customers obtain loans by fraud. In addition, a customer or third party may make fraudulent accounting statement or other false statements to deceive our employees. Such fraud and misconduct could subject us to financial losses and sanctions imposed by governmental authorities and seriously harm our reputation. We have in place risk management systems and internal control procedures to monitor our operations and overall compliance. For example, we have adopted a risk responsibility scheme, under which our customer relationship managers, risk management department and other relevant personnel in charge of loan assessments and approvals take varying shares of responsibility for the loss resulting from a customer's default. However, there is no assurance that we can identify non-compliant or suspicious transactions such as money laundering in a timely manner, or at all. Moreover, it may be difficult to deter or prevent fraud or misconduct at all times, and the precautions we take to prevent and detect such activities may not be effective. As a result, we cannot assure that our business and reputation will not be materially and adversely affected by future incidents of fraud and other misconduct committed by our employees or other parties.

If we fail to maintain an effective internal control over our financial investments, our financial condition and results of operations may be materially and adversely affected.

We have established risk management and internal control systems consisting of the risk management policies and risk control procedures to manage our risk exposures relating to our financial investments. However, we may not be successful in implementing our risk management and internal control systems. While we seek to continue to enhance our risk management and internal control systems from time to time, any failure to address any potential risks and internal control deficiencies could materially and adversely affect our business, financial condition and results of operations.

Since our risk management and internal control systems depend on implementation by our employees, we cannot assure you that all of our employees will adhere to such policies and procedures, and the implementation of such policies and procedures may involve human errors or mistakes. Moreover, our growth and expansion may affect our ability to implement stringent risk management and internal control policies and procedures as our business evolves. If we fail to timely adopt, implement and modify, as applicable, our risk management and internal

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control policies and procedures, our business, financial condition and results of operations could be materially and adversely affected.

We finance a substantial portion of our project investments through bank loans and debt instruments and our finance cost and profitability are subject to changes in interest rates and reserve requirement ratios.

We typically make substantial investments during the initial phases of our projects and we relied on bank loans and debt instruments to finance a significant portion of such investments during the Track Record Period. As such, as of December 31, 2013, 2014 and 2015 and June 30, 2016, our net debt to equity ratio was 30.9%, 22.2%, 29.2% and 34.4% respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2016, our finance cost was RMB167.8 million, RMB171.2 million and RMB176.6 million and RMB83.3 million respectively, the majority of which was interest payment of our outstanding bank loans and debt instruments. We expect to continue to utilize bank loans to finance a substantial portion of our investments in future projects. As our bank loans are principally denominated in RMB, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC. In China, the PBOC regulates the lending rates and reserve requirement ratios for commercial banks. Since 2011, it revised the benchmark lending rates and adjusted the reserve requirement ratio for commercial banks several times. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in China to lend to businesses, including our Company. Changes in the interest rates and reserve requirement ratios for banks have affected and will continue to affect our finance cost and profitability. We cannot assure you that the PBOC will not raise the benchmark lending rates or reserve requirement ratios in the future and any such increase may lead to higher lending rates and limit the amount of funds the banks have for lending, which may increase our finance cost and thereby, materially and adversely affect our business, financial condition, results of operations and prospects.

We recorded net current liabilities during the Track Record Period and we cannot assure you that we will record net current assets in the future.

We recorded net current liabilities of RMB1,414.4 million, RMB1,370.5 million, RMB1,026.1 million, RMB1,732.6 million and RMB1,658.1 million as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016, respectively. Our current liabilities mainly consisted of bank borrowings, trade and bills payables, other payables and amounts due to customers for contract work while our current assets mainly consisted of cash and cash equivalents, trade and bill receivables, loan receivables, prepayments and other receivables and financial assets at fair value through profit or loss. Please refer to the section “Financial Information — Net Current Liabilities” for detailed analysis on our net current liability position. If we fail to generate current assets to the extent that the aggregate amount of our current assets on any given day exceeds the aggregate current liabilities on the same day, we will record net current liabilities. There can be no assurance that we will be able to continue to improve our

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liquidity and record net current assets. If we continue to record net current liabilities, we may face a deficiency of working capital and may not be able to service short term debts when they become due. Any of these events could have a material adverse impact on our financial position and results of operations.

During the Track Record Period, we generated a substantial portion of our revenue from entities not wholly-owned by us.

During the Track Record Period, some of our businesses were conducted through subsidiaries not wholly-owned by us, such as Shanghai Dazhong Gas and Nantong Dazhong Gas. For more details, please refer to the section “Business — Our Public Utility Service Business — Piped Gas Supply Operations.” To the extent our subsidiaries also have other shareholders, we may need to divert necessary management attention and resources to coordinate with such shareholders in the operation of such subsidiaries when necessary. In addition, the objectives of other shareholders in such subsidiaries may not always align with ours and may interfere with our management of the subsidiaries, which in turn may affect the financial position or results of the operations of our Group as a whole.

In particular, in August 2015, we became aware that Shenergy Group, which wholly-owns Shanghai Gas Group, had issued bond offering circulars in which Shenergy Group consolidated the financial statements of Shanghai Dazhong Gas. Pursuant to the relevant accounting principles under IFRS and the PRC GAAP, which substantially converge on the principle of consolidation, only one beneficial owner of an entity has control over the entity and the right to consolidate the financial statements of such entity. We have performed due inquiries and analyses on the matter, including reviewing all relevant offering circulars of Shenergy Group that are publicly available. After such inquiries and analyses, our Directors are of the view that Shenergy Group’s bases for consolidation and its consolidation does not affect the validity of our analyses and conclusion on our control over Shanghai Dazhong Gas. The accounting treatments in relation to Shanghai Dazhong Gas adopted by us and Shenergy Group could raise inquiries or challenges from Shenergy Group, competent authorities or other third parties. If we receive such inquiries or challenges on our accounting treatment, we might choose to or be obliged to respond. To the extent that we receive inquiries or challenges from Shenergy Group, competent authorities or other third parties, we may have to direct substantial management attention and resources to respond to or address such inquiries and challenges, which could have a material adverse impact on our operations.

During the Track Record Period, we generated a substantial portion of our profit from associated companies over whose business we have significant influence but no control.

During the Track Record Period, we recorded a substantial portion of our profit from our strategic investments in public transportation industries through Dazhong Transportation Group. We accounted for our investment in Dazhong Transportation Group under the equity method. Share of results attributable to our investment in Dazhong Transportation Group was RMB96.7 million, RMB103.8 million, RMB122.3 million and RMB64.1 million in 2013, 2014 and 2015 and

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the six months ended June 30, 2016, respectively, representing 26.6%, 24.9%, 21.3% and 15.2% of our profit before tax during the same periods. In addition, we made a financial investment in the amount of RMB307 million in November 2002 in Shenzhen Capital Group. Share of results from Shenzhen Capital Group in 2013, 2014 and 2015 and the six months ended June 30, 2016 was RMB116.9 million, RMB149.5 million, RMB127.4 million and RMB103.1 million, representing 32.2%, 35.9%, 22.2% and 24.5% of our profit before tax during the same periods.

We cannot assure you that we will continue to achieve consistent returns on our strategic and financial investments in the future, or that the amount of such returns will be comparable to those we recognized during the Track Record Period. If such returns do not recur in the future, our results of operations may be materially and adversely affected. We have only limited control over the business of any of these investee companies. If any of our investee companies experiences a slowdown in business or financial performance, our prospects, business and results of operations would be adversely affected. In particular, Shenzhen Capital Group is a major investment platform with significant investments in the PRC, and its performance is significantly affected by the market condition in the PRC, which in turn has potentially material impact on our profit. Shenzhen Capital Group holds equity interests in many companies publicly listed on the PRC stock exchanges, which experienced significant volatility in recent years. As a result, the fair value and the investment return of the relevant equity positions held by Shenzhen Capital Group are subject to uncertainty, which in turn introduces uncertainty to our financial position and results of operations. Furthermore, there can be no assurance that the investee companies will make dividend distribution as we do not have control over the investee companies. As a result, even if the investee companies are profitable, we may not receive any dividend distribution or any cash inflow.

Certain of our assets are recorded in our consolidated balance sheets at fair value, and as a result, the fluctuation of the market prices of those assets may significantly affect our financial results.

Certain of our assets are recorded in our consolidated balance sheets at fair value. These assets include financial assets at fair value through profit or loss, and investments properties. Under IFRS, we are required to reassess the fair value of these assets as of each balance sheet date. The reassessments of fair value are made based on their market prices, and gains or losses arising from changes in the fair value of these assets are included in our consolidated statements of income in the periods in which they arise. The fair value of these assets may fluctuate from time to time as a result of the fluctuation of the market prices, and our results of operations may be materially affected by the fluctuation of fair value. Any decrease in the fair value of these assets would adversely affect our profitability. In addition, fair value gains or losses do not give rise to any change in our cash position unless we dispose of the relevant assets. Therefore, we may experience constraints on our liquidity even though our profitability increases.

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During the Track Record Period, we also generated a portion of our profit from a portfolio of financial investments in public utility and other industries. In 2013, 2014 and 2015 and the six months ended June 30, 2016, our net investment income and gains from our financial investments, which consisted primarily of net gain on disposal of equity interests for financial assets previously invested in and dividend income, was RMB44.4 million, RMB163.0 million, RMB72.1 million and RMB106.9 million, respectively, accounting for approximately 12.2%, 39.1%, 12.6% and 25.4%, respectively, of our profit before tax during the same periods.

The determination of the amount of impairments taken on our investments in available-for-sale financial assets is based on significant valuation judgments and could materially impact our results of operations or financial position.

Certain of our available-for-sale financial assets are carried at fair value subsequent to initial recognition. A decline in the value of our available-for-sale financial assets can result in the recognition of impairment losses if our management determines that such decline in value is not temporary. The fair value of such available-for-sale financial assets is affected by overall market conditions, and any decline in their fair value may have a direct and significant impact on our profit and capital position. In addition, a decline in the value of available-for-sale financial assets could result in the recognition of impairment losses if management determines that such decline in value is not temporary or is substantial, which could impact our profitability. For example, our Directors considered that a significant or prolonged decline in the fair value of an investment in an equity instrument below cost is an objective evidence of impairment. For more details, please refer to the section “Financial information — Description of Selected Consolidated Statements of Financial Position Items — Available-for-sale Financial Assets”.

In addition, the evaluation process is a matter of judgment and subjective assessment of various factors which involve significant uncertainties and beyond our control. The determination of the amount of impairments on our investments in available-for-sale financial assets is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective securities. The determination of whether an impairment is other than temporary is based on significant judgment and involves the consideration of various factors and circumstances, which includes but is not limited to the following:

- issuer financial condition, including profitability and cash flows;
- credit status of the issuer;
- the issuer’s specific and general competitive environment;
- published reports;
- general economic environment;
- future prospects of the issuer;

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- regulatory, legislative and political environment;
- the severity of the decline in fair value;
- the length of time the fair value is below cost;
- our intent or need to dispose of the security prior to recovery of its fair value to amortized cost; and
- other factors as may become available from time to time.

Historical trends may not be indicative of future impairments. Such evaluations and assessments are revised as conditions change and new information becomes available. Our management updates its evaluations regularly and reflects impairments in its income statement as such evaluations are revised. There can, however, be no assurance that our management has accurately assessed the level of impairments reflected in our financial statements. Furthermore, additional impairments may need to be taken in the future, which could have a material adverse effect on our financial condition or results of operations.

We may undertake acquisitions, investments, joint ventures or other strategic alliances, which may not be successful or which otherwise may have a material adverse effect on our ability to manage our business.

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances with suppliers or other companies in China and overseas along the public utilities services industry value chain. Acquisitions of companies or businesses and participation in joint ventures or other strategic alliances are subject to considerable risks, including:

- our inability to integrate new operations, personnel, products, services and technologies;
- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;
- the diversion of financial or other resources from our existing businesses and technologies;
- disagreement with joint venture or strategic alliance partners;
- contravention of regulations governing cross-border investment;
- failure to comply with laws and regulations as well as industry or technical standards of the markets into which we expand;

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- exposure to operation, regulatory, market and geographic risks and additional capital requirements;
- our inability to generate sufficient revenues to offset the costs and expenses of acquisitions, strategic investments, joint venture formations or other strategic alliances; and
- potential loss of, or harm to, employees or client relationships.

Any of the above risks could significantly impair our ability to manage our business and materially and adversely affect our business, results of operations and financial condition.

We may encounter unexpected difficulties in implementing our strategies for future growth.

Our goal is to become a leading public utility company in China. As part of our business strategy, we plan to build a nation-wide and overseas operation platform by “solidifying our operations in Shanghai, increasing our presence in Eastern China and exploring opportunities overseas”. We plan to expand our geographic reach through a combination of organic growth and acquisition. For more details, see “Business — Our Strategies” and “Future Plans and Use of Proceeds” in this prospectus. Our ability to implement our business plans depends on, among other things, our ability to obtain any necessary Governmental or regulatory approval or licenses; our ability to identify, and the availability of, suitable strategic acquisition targets and joint venture partners; and the availability of our management, financial and other resources. There can be no assurance that we can achieve our planned expansion objectives in a timely manner, or at all.

We have experienced and will likely continue to experience growth in the scope and complexity of our operations and in the number of our employees. This growth has placed, and future growth will continue to place, a significant strain on our managerial, technical, financial, production, operational, and other resources. If we are unable to integrate the businesses we acquire, or if we fail to manage and monitor our growth and expansion effectively, our future business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the continuous services of our senior management team and other key personnel.

Our future success depends heavily upon the continuous services of our executive directors and members of our senior management team, in particular Mr. Yang Guoping. Our management team comprises both experienced engineers and professional managers, with extensive experience in the relevant industries. If one or more of our senior executives are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of

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operations may be materially and adversely affected. As competition in the PRC for senior management and key personnel with experience in public utility services industries is intense, and the pool of qualified candidates is very limited, we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. If we fail to attract and retain qualified personnel, our business and prospects may be adversely affected.

We may be involved from time to time in legal proceedings and commercial or contractual disputes, which could have a material adverse effect on our business, results of operations and financial condition.

We may be involved from time to time in legal proceedings and commercial or contractual disputes in the ordinary course of our business. Although there is no material unresolved litigation, arbitration or administrative proceeding against us as of the Latest Practicable Date, we cannot assure you that we will not be involved in various legal and other disputes in the future, which may expose us to additional risks and losses. In addition, we may have to pay legal costs associated with such disputes, including fees relating to appraisal, auction, execution and legal advisory services. Litigation and other disputes may lead to inquiries, investigations and proceedings by regulatory authorities and other governmental agencies and may result in damage to our reputation, additional operating costs and diversion of resources and management's attention from our core business. The disruption of our business due to judgment, arbitration and legal proceedings against us or adverse adjudications in proceedings against our Directors, senior management or key employees may have a material adverse effect on our reputation and our financial condition, results of operations and prospects.

Certain defects in the properties occupied by us may materially and adversely affect our ability to use such properties and in turn have an adverse effect on our business.

As of the Latest Practicable Date, we have not obtained the land use rights certificates and the building ownership certificates for seven properties with a gross floor area of approximately 4,939 sq.m., representing approximately 14.08% of the aggregate gross floor area of the properties we owned. The defective titles were caused by various reasons, such as lack of original documents when the property was assigned to us by local government and/or incomplete construction. We use most of these properties as service branches. For more details, please refer to the section "Business — Properties — Owned Properties and Land Use Rights — Owned properties with defective titles". In respect of those properties without title certificates, any dispute or claim in relation to our rights to occupy or use the properties, including any litigation involving allegations of illegal or unauthorized occupation or use of these properties, may require us to relocate our business and operations, which in turn, may materially and adversely affect our business, financial condition and results of operation.

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We may fail to adequately protect our intellectual property rights, or could face claims of infringement of the intellectual property rights of others.

We rely on patents and trademarks to protect our proprietary rights. As of the Latest Practicable Date, we had four registered patents and two registered trademarks in the PRC and two registered trademarks in Hong Kong. We generally do not enter into confidentiality agreements with our personnel. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technologies. Monitoring unauthorized use of our intellectual property is difficult, and we cannot assure you that the steps we have taken will prevent the unauthorized use of our technologies. In addition, applicable laws may not fully protect our intellectual property rights. Any claims or litigation that we may initiate in the future to protect our intellectual property rights could be time consuming and expensive, diverting resources from our business regardless of whether or not the disputes are decided in our favor. Moreover, any infringement upon our intellectual property rights could weaken our competitiveness in the market, which would adversely affect our business, financial condition, results of operations and prospects.

In addition, as we expand our business and increase our geographical coverage, third parties may assert that our technologies or techniques infringe their intellectual property rights. We cannot assure you that we will not face any claims or litigation for infringement of the intellectual property rights of others. These claims or litigation could adversely affect our relationships with current or future customers, divert management attention and resources, and result in costly litigation and thus adversely affect our business, financial condition, results of operations and prospects.

The preferential tax treatment we currently enjoy may be unfavorably changed or discontinued.

During the Track Record Period, certain of our income generated from wastewater treatment operations were subject to income tax reduction during the Track Record Period. For more details, please refer to the section “Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Income tax”. We cannot assure you that such exemption or preferential treatment that we currently enjoy will not be unfavorably changed or discontinued. The termination or expiry of the preferential tax treatment during the relevant periods or the imposition of additional taxes on us or our subsidiaries in China may significantly increase our tax expense and materially reduce our net income.

We generated a substantial portion of our revenue from our business operations in Shanghai, and our results of operations and financial condition rely heavily on the economic and social conditions of Shanghai.

We operate our businesses primarily in Shanghai. In 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue derived from our subsidiaries registered in Shanghai

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accounted for 83.9%, 82.8%, 83.8% and 84.5%, respectively, of our total revenue. While we will continue to grow our operations outside Shanghai, we expect that Shanghai will continue to be our principal market and place of operation.

In light of the concentration of our businesses in Shanghai, we are exposed to risk associated with such geographical region. Our Directors believe that our business, financial condition, results of operations and prospect will continue to benefit from (i) economic and social development, degree of industrialization and urbanization and the acceptance and perception of customers to natural gas in Shanghai; and (ii) the continued support of the national and local governments in the promotion and increasing utilization of natural gas as an economical, efficient and clean energy source. However, we cannot assure you that the economic development in Shanghai will continue to develop as anticipated, or that the macro or local economic environment or PRC government's policy on natural gas, or wastewater will not change. If Shanghai experiences any adverse economic, political or regulatory conditions due to events beyond our control, our business, financial condition, results of operations and prospects may be materially and adversely affected.

RISKS RELATING TO OUR INDUSTRIES

Any future changes in laws or regulations or enforcement policies in relation to the public utility industries could materially and adversely affect our business, results of operations and financial condition.

The public utility industries are subject to a broad range of laws and regulations in the PRC. As such, any significant change in government policies, rules and regulations in public utility industries may materially and adversely affect our business, results of operations and financial condition.

All major aspects of piped gas industry are strictly regulated by the relevant government authorities, including procurement price, retail price, procurement channels, and pipeline network construction. Any change in existing laws and regulations or their interpretation that may affect our business or operations could require us to incur additional compliance costs or costly and time-consuming changes to our operations, either of which could materially and adversely affect our business, results of operations and financial condition. For details of such laws and regulations, please refer to the section "Regulatory Overview".

Regulatory standards play a critical role in influencing the demand for our wastewater treatment services. In particular, our wastewater treatment projects are required to meet effluent and emission standards imposed by the relevant environmental protection administration authorities. The relevant environmental protection administration authorities may impose more stringent standards in the future which would increase our operational costs to meet such higher standards. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and

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regulations continue to evolve, we cannot assure you that the PRC government will not impose additional laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers. In addition, any changes in legislative, regulatory or industrial requirements may render certain of our wastewater treatment solutions obsolete. We may need to upgrade existing technologies and facilities to meet the standards imposed by the relevant regulatory authorities, which will require higher financial, human and other resources. All these could materially and adversely affect our business, financial condition and operational results.

Our business operations may be materially and adversely affected by acts of God and epidemics or pandemics which are beyond our control.

Natural disasters, epidemics or pandemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC and other parts of the world. Our business, operating results and financial condition may be adversely and materially affected if such natural disasters occur in the PRC or in the regions in which we have operations.

Competition in the public utility industries may increase and our inability to maintain our competitiveness could materially and adversely affect our financial performance.

The public utility industries in China are highly fragmented, with a large number of service providers throughout the country. We compete primarily with public utility services providers in China and new entrants to the market, some of our competitors may have better access to financial resources, lower cost structures, higher levels of integration, better operating efficiency, more advanced technologies or longer operating histories. If we are unable to improve our services quality, maintain our operating efficiency and control our costs, we may not be able to compete effectively against our existing or new competitors and our sustainability and growth opportunities may be limited, which will materially and adversely affect our revenue and profitability.

Our micro-credit business could be negatively affected by changes and fluctuations in the banking industry.

Our micro-credit business focuses on local micro- and small-enterprises and individuals in Shanghai. We believe such micro- and small-enterprises and individuals are generally underserved by the banking industry in China because they generally lack sufficient business scale and/or do not possess acceptable collateral to obtain credit, and the loan approval process of commercial banks is time consuming, which conflicts with the needs of such customers for quick access to loans. These have created opportunities for us to develop and expand our business. However, there may be changes and fluctuations in the banking industry in China. Microfinance businesses may become more attractive to commercial banks along with the market development, or commercial banks may be involved more in the financing of micro- or small-enterprises and individuals in the agricultural, industrial and service sectors in light of

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the PRC government's support of such financing. Under such circumstances, we may face greater competition in our business and may not succeed in competing with commercial banks.

In addition, our loan business may be affected by other changes in the banking industry. For example, in times of liquidity squeeze within the banking industry, we may not be able to get sufficient bank borrowings from the banks we cooperate with. Since our primary funding sources for micro-credit business are capital contributions from our shareholders and borrowings from commercial banks, our funding available to granting of loans may decrease due to the liquidity squeeze measures. As a result, our business and results of operations may be adversely affected.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Changes in the PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Substantially all of our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects are affected by the economic, political and legal developments in the PRC. In particular, the PRC government continues to exercise significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in reforming the economy. These economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may have an adverse effect on us.

While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained or is sustainable. The growth rate of China's GDP decreased from 7.7% in 2013 to 7.3% in 2014 and further to 6.9% in 2015. In addition, an unfavorable financial or economic environment in recent years, including as a result of continued global financial uncertainties and the Eurozone sovereign debt crisis, have had and may continue to have an adverse impact on investors' confidence and financial markets in China. Moreover, concerns over capital market volatility, issues of liquidity, inflation, geopolitical issues, the availability and cost of credit and concerns about the rate of unemployment have resulted in adverse market conditions in China, which may materially and adversely affect our business and operations.

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Governmental control over currency conversion may affect the value of your investment and limit our ability to utilize our cash and pay dividends effectively.

The RMB is not currently a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. As our operations are primarily conducted in the PRC and substantially all of our revenue is denominated in RMB, fluctuations in the RMB exchange rate against other currencies did not have a material impact on our results of operations during the Track Record Period. Pursuant to existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange transactions (including dividend payouts) without submitting the certifying documents of such transactions to SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes, including direct overseas investment and various international loans, may require the prior approval or registration with SAFE. If we fail to obtain SAFE's approval to convert RMB into foreign currencies for such purposes, our capital expenditure plans, business operations and subsequently our results of operations and financial condition could be materially and adversely affected.

The PRC's legal system is still evolving and PRC laws are different from those of common law countries.

Our Company is incorporated under the laws of the PRC and substantially all of our activities are conducted in the PRC, hence our business operations are regulated primarily by PRC laws and regulations. PRC laws and regulations are based on written statutes, and past court judgments may be cited only for reference. Since 1979, the PRC government has been committed to developing and refining its legal system and has achieved significant progress in the development of its laws and regulations governing economic matters, such as in foreign investment, company organization and management, business, tax and trade. However, as these laws and regulations are still evolving, and there are limited number and non-binding nature of published cases.

In addition, the PRC Company Law is different in certain important respects from company laws in common law countries or territories such as Hong Kong, particularly with regard to investor protection, including areas such as derivative actions by shareholders and other measures protecting non-controlling shareholders, restrictions on directors, disclosure obligations, variations of class rights, procedures at general meetings and payments of dividends. Protection for investors under the PRC Company Law is increased, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Hong Kong Listing Rules with a view to reducing the scope of differences between the company laws of Hong Kong and the PRC. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong Kong. The Articles of Association have incorporated the provisions in the Mandatory Provisions and the Hong Kong Listing Rules. Despite the incorporation of

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those provisions, there is no assurance that you will enjoy an equal level of protection that you may be entitled to when investing in companies incorporated in common-law jurisdictions.

It may be difficult to effect service of legal process and enforce judgments rendered by courts other than PRC courts against us or the Directors, Supervisors or senior management residing in China.

Our Company is a company incorporated under the laws of the PRC, and a substantial portion of our Company's assets and most of our subsidiaries are located in the PRC. In addition, most of our Company's Directors, Supervisors and senior management members reside within the PRC, and the assets of our Company's Directors, Supervisors and senior management members may be located within the PRC. As a result, it may not be possible to effect service of legal process within the United States or elsewhere outside the PRC upon our Company, our assets located in China or most of our Company's Directors, Supervisors and senior management, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in any other jurisdictions mentioned above in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), or the Arrangement, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

We will be subject to the regulations under the Hong Kong Listing Rules and the Takeovers Code upon the listing of our H Shares on the Hong Kong Stock Exchange. However, the holders of H Shares will not be able to act in violations of the Hong Kong Listing Rules and must rely on

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the Hong Kong Stock Exchange or the SFC to enforce its rules. In addition, the Takeovers Code does not have the force of law and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Foreign individual holders of our H Shares may become subject to PRC income tax and the PRC tax obligations of foreign enterprises that are holders of our H Shares remain uncertain.

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares. Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations. Generally, a tax rate of 10% shall apply to the dividends paid by our Company to foreign individuals without application to the applicable treaties. When a tax rate of 10% is not applicable, the withholding company shall (i) return the excessive tax amount if the applicable tax rate is lower than 10%; (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under China's EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders which are Overseas Non-resident Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

As China's EIT Law came into effect on January 1, 2008 and its implementation rules are relatively new, there remains significant uncertainty as to their interpretation and application by China's tax authorities, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends to non-PRC resident individual holders of H Shares and on gains realized on the sale or other disposition of H Shares. China's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

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Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

RISKS RELATING TO THE GLOBAL OFFERING

Characteristics of the A share and H share markets may differ.

Our A Shares have been listed and traded on the Shanghai Stock Exchange since March 4, 1993. Following the Global Offering, our A Shares will continue to be traded on the Shanghai Stock Exchange, and our H Shares will be traded on the Hong Kong Stock Exchange. Without approval from the relevant regulatory authorities, our A Shares and H Shares are neither interchangeable nor fungible, and there is no trading or settlement between the A share and the H share markets. The A share and H share markets have different trading characteristics, including trading volume and liquidity, and investor bases including different levels of participation of retail and institutional investors. As a result of these differences, the trading prices of our A Shares and H Shares may not be the same. Moreover, fluctuations in our A Share price may affect our H Share price and vice versa. Because of the different characteristics of the A share and H share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. Furthermore, on April 10, 2014, CSRC and SFC approved, in principle, the development of Shanghai-Hong Kong Stock Connect. Upon the approval of the implementation of such plan, eligible investors in China and Hong Kong are approved to trade eligible securities listed on the other markets through local securities firms or brokers in a limited amount by Shanghai Stock Exchange and Hong Kong Stock Exchange. We are not sure to what extent the implementation of the pilot program of Shanghai-Hong Kong Stock Connect may impact the trading prices of our A Shares and H Shares. You should therefore not place undue reliance on the historical performance of our A Shares when evaluating an investment in our H Shares.

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As the Offer Price of our H Shares is higher than the net tangible asset value per share, you will experience immediate dilution.

The Offer Price of our H Shares is higher than the net tangible asset value per share of the outstanding Shares issued to our existing Shareholders. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in the net tangible asset value, and the pro forma adjusted consolidated net tangible asset value per share of the Shares held by our existing Shareholders will increase. If, in order to expand our business in the future, we issue additional H Shares at a price below the net tangible asset value per share, the net tangible asset value per share of our H Shares held by the buyers of our H Shares may be diluted.

The sales or potential sales of substantial amounts of our H Shares in the public market (including any future offering) may affect the prevailing market price of our H Shares and our ability to raise capital in the future, and future additional issuance of securities may dilute your shareholdings.

The sales of substantial amounts of our H Shares or other securities related to our H Shares in the public market, or the issuance of new H Shares or other securities, or the market anticipation that such sales or issuance may occur, may cause fluctuations in the market price of our H Shares, and may materially and adversely affect our ability to raise capital at a time and at a price as we see fit in the future. Furthermore, if we issue additional securities in future offerings, the shareholdings of the Shareholders may be diluted.

There will be a time gap of several business days between pricing and trading of our H Shares offered under the Global Offering.

The Offer Price of our H Shares sold to the public under the Global Offering will be determined on the Price Determination Date. However, trading of our H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several business days after the Price Determination Date. As a result, investors of our H shares may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares may be subject to the risk that our H Share trading price could fall before trading begins as a result of adverse market conditions or other unfavorable circumstances that may arise during the period between the Price Determination Date and the date on which the dealing begins.

There has been no prior public market for our H Shares, and the liquidity, market price and trading volume of the H Shares may be volatile.

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range for our H Shares was the result of negotiations among us (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of the Underwriters), and such Offer Price may differ significantly from the market price

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for our H Shares following the Global Offering. We have applied to the Hong Kong Stock Exchange for the listing of, and the permission to deal in, our H Shares. However, there is no assurance that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. The market price, liquidity and trading volume of our H Shares may be volatile. Factors such as the following may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of additional H Shares by us or other Shareholders; and
- fluctuation in the price and trading volumes of our A Shares on the Shanghai Stock Exchange.

In addition, H shares of other PRC issuers listed on the Hong Kong Stock Exchange have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance.

There can be no assurance if and when we will pay dividends in the future; dividends declared in the past may not be indicative of our dividend policy in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC law and regulations, market conditions, our strategic plans and prospects for

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business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See “Financial Information — Dividend” for more details of our dividend policy. In addition, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

We cannot guarantee the accuracy of official government facts, forecasts and other statistics with respect to China, the Chinese economy and China’s public utility industry contained in this prospectus.

Official government facts, forecasts and other statistics in this prospectus relating to China, the Chinese economy and China’s public utility industry have been derived from official government publications. We believe that the sources of such information are appropriate sources, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Representatives, the Joint Bookrunners, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official government facts, forecasts or statistics.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industries and the Global Offering.

There has been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We make no representation as to and accept no responsibility for the appropriateness, accuracy, completeness or reliability of any of these projections, valuations or other forward-looking information about us or the Global Offering. To the extent that such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

MANAGEMENT PRESENCE IN HONG KONG

Rules 8.12 and 19A.15 of the Hong Kong Listing Rules require that an issuer must have sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Our Company has six executive Directors who currently reside in China. As most of our operations are in China, we will not, after Listing or in the foreseeable future, have sufficient management presence in Hong Kong. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

The arrangements proposed by us for maintaining regular communication with the Hong Kong Stock Exchange for the purpose of Rules 8.12 and 19A.15 of the Hong Kong Listing Rules are as follows:

- (a) our Company will appoint two authorized representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules who will act as our Company's principal communication channel with the Hong Kong Stock Exchange and will ensure that they comply with the Hong Kong Listing Rules at all times. The two authorized representatives to be appointed are Mr. Liang Jiawei (梁嘉瑋), a PRC resident, and Mr. Wong Yat Tung (黃日東), an ordinarily resident in Hong Kong. Although one of them resides in the PRC, Mr. Liang Jiawei (梁嘉瑋) has valid travel documents and is able to renew such travel documents when they expire in order to visit Hong Kong. Each of the two authorized representatives has been duly authorized to communicate on behalf of our Company with the Hong Kong Stock Exchange and each of them will be readily available to meet with the Hong Kong Stock Exchange in Hong Kong within a reasonable time frame upon request and will be readily contactable by mobile or telephone, facsimile or email;
- (b) both the authorized representatives have means to contact all members of the Board promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Board on any matters;
- (c) our Company has implemented a policy whereby (i) each Director will provide his or her respective mobile phone number, residential phone number, fax number and email address to the authorized representatives; (ii) each Director will provide valid phone numbers or means of communication to the authorized representatives when he or she travels; and (iii) each Director and authorized representative has provided his or her mobile phone number, office phone number, fax number and email address to the Hong Kong Stock Exchange;
- (d) all Directors who are not ordinarily resident in Hong Kong have confirmed that they hold valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange in Hong Kong upon reasonable notice, when required; and

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- (e) our Company has appointed Haitong International Capital Limited as compliance adviser who will have access at all times to our Company's authorized representatives, Directors and other officers and will serve as our Company's additional communication channel with the Hong Kong Stock Exchange. The compliance adviser will advise our Company on on-going compliance requirements and other issues arising under the Hong Kong Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the listing of its H Shares.

APPOINTMENT OF JOINT COMPANY SECRETARIES

Rule 8.17

According to Rule 8.17 of the Hong Kong Listing Rules, the company must appoint a company secretary who satisfies Rule 3.28 of the Hong Kong Listing Rules.

Rule 3.28

Rule 3.28 of the Hong Kong Listing Rules specifies that, the company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing "relevant experience", the Hong Kong Stock Exchange will consider the individual's:

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Hong Kong Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules; and

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(d) professional qualifications in other jurisdictions.

Ms. Zhao Fei (趙飛) does not possess the specified qualifications required by Rule 3.28 of the Hong Kong Listing Rules although she has held various senior positions as indicated in her biography, and she may not possess the relevant experience as required by the Hong Kong Stock Exchange in terms of her familiarity with the Hong Kong Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer particularly in assisting the listed issuer as well as its directors in complying with the Hong Kong Listing Rules and other relevant laws and regulations, we have the following arrangements:

- Ms. Zhao Fei (趙飛) will endeavor to attend relevant training courses including briefings on the latest changes to the applicable Hong Kong laws and regulations and the Hong Kong Listing Rules organized by our Company's Hong Kong legal advisers on an invitation basis and seminars organized by the Hong Kong Stock Exchange for PRC issuers from time to time.
- Our Company has appointed Mr. Wong Yat Tung (黃日東) who meets the requirements under Rule 3.28 of the Hong Kong Listing Rules, as a joint company secretary to assist Ms. Zhao Fei (趙飛) so as to enable her to acquire the relevant experience (as required under Rule 3.28 of the Hong Kong Listing Rules) to discharge her duties and responsibilities as company secretary of our Company.
- Mr. Wong Yat Tung (黃日東), who will familiarize himself with the affairs of our Company, will communicate regularly with Ms. Zhao Fei (趙飛) on matters relating to corporate governance, the Hong Kong Listing Rules as well as other laws and regulations which are relevant to us and our other affairs. Mr. Wong Yat Tung (黃日東) will work closely with, and provide assistance to, Ms. Zhao Fei (趙飛) in the discharge of her duties as a joint company secretary, including organizing our Company's board meetings and Shareholders' meetings.
- Ms. Zhao Fei (趙飛) will also be assisted by the compliance adviser and the Hong Kong legal advisers of our Company, particularly in relation to Hong Kong corporate governance practices and regulatory compliance, on matters concerning our Company's on-going compliance obligations under the Hong Kong Listing Rules and the applicable laws and regulations.
- Ms. Zhao Fei (趙飛) will be appointed for an initial period of three years, provided that she will be assisted by Mr. Wong Yat Tung (黃日東). Upon expiry of the three-year period, a further evaluation of the qualifications and experience of Ms. Zhao Fei (趙飛) and the need for on-going assistance would be made.

WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

Our Company has applied to the Hong Kong Stock Exchange for, and has been granted, a waiver from strict compliance with the requirements of Rule 8.17 of the Hong Kong Listing Rules. Upon the expiry of the initial three year period, the Hong Kong Stock Exchange will revisit the qualification and experience of Ms. Zhao Fei (趙飛) to determine whether the requirements as stipulated in Rule 8.17 of the Hong Kong Listing Rules can be satisfied. In the event that Ms. Zhao Fei (趙飛) has obtained relevant experience under Rule 3.28 of the Hong Kong Listing Rules at the end of the said period, the above joint company secretaries arrangement will no longer be required by our Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Members of our Group have entered into, and are expected to continue after the Listing, certain transactions, which will constitute non-exempt continuing connected transactions under the Hong Kong Listing Rules upon Listing. We have applied to the Hong Kong Stock Exchange for waivers in relation to non-exempt continuing connected transactions with Shanghai Gas Group, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Hong Kong Listing Rules. For more details, please refer to the section headed “Connected Transactions”.

ALLOCATION OF H SHARES TO INVESTORS WHO HOLD A SHARES

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought if, among other conditions, no securities will be offered to it on a preferential basis and no preferential treatment will be given to it in the allocation of the securities. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules provides, among other things, that without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to existing shareholders or their close associates, whether in their own names or through nominees unless the relevant conditions are fulfilled.

Prior to the Listing, our Company’s share capital comprises entirely A Shares listed on the Shanghai Stock Exchange (stock code: 600635). We have a large and widely dispersed public A Share Shareholder base.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with, and its consent under, the relevant requirements of Rule 10.04 and paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules so that our Company will be able to allocate H Shares under the International Offering to investors who hold A Shares representing, in any case, less than 2% of our Company’s total issued share capital immediately before completion of the Global Offering (excluding any connected persons of the Company) and their close associates (collectively, the “**A Shareholders’ Investors**”) on the conditions that, among other things:

WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

- (1) none of the A Shareholders' Investors would be in the position to exert influence over our Company or the allocation process in the Global Offering since:
 - (a) none of them had or would have any board representation or any other special rights in our Company;
 - (b) none of them was or would be core connected person or close associates of our Company immediately prior to or after the Global Offering; and
 - (c) none of them held 2% or more of our Company's total issued share capital immediately before completion of the Global Offering.
- (2) our Directors, the Joint Sponsors and the Joint Bookrunners confirm that the A Shareholders' Investors would be subject to the same book building and allocation process as other investors in the International Offering at the Offer Price. No preferential treatment would be given to them under the Global Offering and the relevant information in respect of the allocation of the A Shareholders will be disclosed in the allocation results announcement.
- (3) allocation to the A Shareholders' Investors would not affect our Company's ability to satisfy the public float requirement under Rule 8.08 of the Hong Kong Listing Rules.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this prospectus misleading.

CSRC APPROVAL

The CSRC has given us its approval for the filing of our application to list the H Shares on the Hong Kong Stock Exchange and the Global Offering on December 30, 2015. In granting this approval, the CSRC does not accept responsibility for the financial soundness of our Company, or for the accuracy of any of the statements made or opinions expressed in this prospectus and the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Joint Representatives (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on or before the Price Determination Date. The Global Offering is managed by the Joint Representatives. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting".

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Selling Shareholders, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering”, and the procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” and on the relevant Applications Forms.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, (i) our H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (ii) the H Shares which will be converted from A Shares and offered by the Selling Shareholders pursuant to the relevant PRC regulations relating to reduction of state-owned shares and the additional H Shares converted from A Shares and offered by the Selling Shareholders upon the exercise of the Over-allotment Option. Except for the A Shares of our Company that have been listed on the Shanghai Stock Exchange and our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of the Shares or loan capital of our Company is listed or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Offer Shares on the Hong Kong Stock Exchange and the compliance with the stock admission requirements of

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements that may affect their rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing to, purchasing, holding or disposing of, and/or dealing in the H Shares (or exercising rights attached thereto). None of us, the Selling Shareholders, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Underwriters, any of our or their respective directors, agents, employees or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the H Shares.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our H Share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered in our H Share register of members will be subject to Hong Kong stamp duty. For further details, please refer to the section headed “Appendix III — Taxation”.

OVER-ALLOTMENT AND STABILIZATION

In connection with the Global Offering, the Stabilizing Manager or any person acting for it may over-allocate Shares or effect any other transactions with a view to stabilizing and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action.

In connection with the Global Offering, our Company and the Selling Shareholders are expected to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Representatives (on behalf of the International

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company and the Selling Shareholders may be required to issue at the Offer Price up to an aggregate of 71,841,000 H Shares, representing 15% of the total number of H Shares initially available under the Global Offering to, among other things, cover over-allocations in the Global Offering, if any.

Further details with respect to stabilization and the Over-allotment Option are set out in the sections headed “Structure of the Global Offering — Stabilization” and “Structure of the Global Offering — The International Offering — Over-allotment Option”.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The application procedures for the Hong Kong Public Offer Shares are set out in the section headed “How to apply for Hong Kong Public Offer Shares” and on the relevant Application Forms.

DIVIDENDS PAYABLE TO HOLDERS OF H SHARES

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of H Shares will be paid to Shareholders as recorded in our H Share register, and sent by ordinary post, at the Shareholders’ own risk, to the registered address of each Shareholder.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and our H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until such holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our Shareholders, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. For further details, please refer to the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

sections headed “Appendix IV — Summary of Principal Legal and Regulatory Provisions” and “Appendix V — Summary of The Articles of Association”;

- agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- authorizes us to enter into a contract on his behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not associates of any of the Directors of our Company or an existing shareholder of our Company or a nominee of any of the foregoing.

THE SELLING SHAREHOLDERS

Name	Number of Sale Shares (assuming the Over-allotment Option is not exercised)	Number of Sale Shares (assuming the Over-allotment Option is exercised in full)
Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司)	42,387,911	48,746,097
Wuxi Coach Co., Ltd.* (無錫客運有限公司)	1,152,089	1,324,903
Total	<u>43,540,000</u>	<u>50,071,000</u>

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering”.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains certain translations for the convenience of the reader at the following rates: Renminbi into HK dollars at the rate of HK\$1.00 to RMB0.8706 and HK dollars into US dollars at the rate of US\$1.00 to HK\$7.7559. The

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RMB to HK\$ exchange rate is quoted by the PBOC for foreign exchange transactions prevailing on November 4, 2016. The US\$ to HK\$ exchange rate is set forth in the H10 weekly statistical release of the Federal Reserve Board of the United States on November 4, 2016. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB, HK\$ or US\$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

TRANSLATION

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus for which no official English translation exists are unofficial translation and for reference only.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**DIRECTORS**

Name	Address	Nationality
Executive Directors		
Mr. Yang Guoping (楊國平)	Room 402, No. 2 Lane 271, Xingguo Road Xuhui District Shanghai PRC	Chinese
Mr. Zhong Jinxing (鍾晉倅)	Room 501, No. 14 Lane 1058, Zhenguang Road Shanghai PRC	Chinese
Mr. Liang Jiawei (梁嘉瑋)	No. 15, Lane 57, Longchang Road Yangpu District Shanghai PRC	Chinese
Ms. Yu Min (俞敏)	Room 1102, No. 11 Lane 229, Fugui East Road Changning District Shanghai PRC	Chinese
Mr. Yang Jicai (楊繼才)	Room 602, No. 11 Lane 398, Hami Road Changning District Shanghai PRC	Chinese
Mr. Zhuang Jianhao (莊建浩)	Room 1405, No. 59 Lane 91, Zhongtan Road Shanghai PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
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Non-executive Director

Mr. Li Songhua (李松華)	1505 Room, No. 4 Lane 1060 Lujiabang Road Shanghai PRC	Chinese
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Independent Non-executive Directors

Mr. Cai Jianmin (蔡建民)	Room 1701, No. 15 Lane 888, Jinxiu Road Pudong New District Shanghai PRC	Chinese
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Mr. Chow Siu Lui (鄒小磊)	Room B, 20/F, Serene Court 8 Kotewall Road Hong Kong	Chinese (Hong Kong)
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Mr. Yan Xuehai (顏學海)	No. 162, Lane 2000 Yunshan Road Pudong New district Shanghai PRC	Chinese
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Mr. Yao Cho Fai Andrew (姚祖輝)	16/F, No. 34 Belleview Drive Repulse Bay Hong Kong	Chinese (Hong Kong)
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SUPERVISORS

Name	Address	Nationality
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Ms. Cao Yongqin (曹永勤)	Room 1001, No. 305 Guangyuan West Road Shanghai PRC	Chinese
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Ms. Zhao Siyuan (趙思淵)	Room 201, No. 42 Lane 2899, Hongmei Road Minhang District Shanghai PRC	Chinese
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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Mr. Yang Weibiao (楊衛標)	Room 2001, 20/F Building 14 No. 726 Xinhua Road Shanghai PRC	Chinese

Further information is disclosed in the section headed “Directors, Supervisors and Senior Management”.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

(in alphabetical order)

China International Capital Corporation

Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Haitong International Capital Limited

22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Global Coordinators

China International Capital Corporation

Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Haitong International Securities Company Limited

22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

China Everbright Securities (HK) Limited

24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Bookrunners

China International Capital Corporation

Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Haitong International Securities Company Limited

22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

China Everbright Securities (HK) Limited

24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

CMB International Capital Limited

Units 1803–4
18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

**China International Capital Corporation
Hong Kong Securities Limited**
29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Haitong International Securities Company Limited
22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

China Everbright Securities (HK) Limited
24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

CMB International Capital Limited
Units 1803–4
18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
Central
Hong Kong

Co-Managers

Sinomax Securities Limited
Unit 1601
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

CSL Securities Limited

Room 1406-12
14/F, Nan Fung Tower
88 Connaught Road Central
Central
Hong Kong

Alliance Capital Partners Limited

Room 1502-03A
15/F, Wing On House
71 Des Voeux Road Central
Central
Hong Kong

**Legal Advisers to
our Company**

as to Hong Kong law:

Morrison & Foerster

33/F, Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

as to PRC law:

Jin Mao P.R.C. Lawyers

19/F, Sail Tower
No. 266 Hankou Road
Huangpu District
Shanghai 200001
PRC

**Legal Advisers to
the Underwriters**

as to Hong Kong law:

Latham & Watkins

18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

as to PRC law:

Grandall Law Firm (Shanghai)

23–25/F, Garden Square
968 West Beijing Road
Shanghai 200041
PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Reporting Accountant**BDO Limited**

25/F, Wing On Centre
111 Connaught Road Central
Hong Kong

Compliance Adviser**Haitong International Capital Limited**

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Receiving Banks**Bank of China (Hong Kong) Limited**

1 Garden Road
Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited

15 Floor, Standard Chartered Tower
388 Kwun Tong Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered Office	518 Shangcheng Road Pudong New Area Shanghai PRC
Headquarters and Principal Place of Business in the PRC	8/F, Dazhong Building 1515 Zhongshan West Road Shanghai PRC
Principal Place of Business in Hong Kong	3011, Tower 6, The Gateway 1 Canton Road Tsim Sha Tsui Hong Kong
Company Website	www.dzug.cn <i>(information contained in this website does not form part of this prospectus)</i>
Joint Company Secretaries	Ms. Zhao Fei (趙飛) Room 201, No. 41 Lane 1493, Meichuan Road Jiading District Shanghai PRC Mr. Wong Yat Tung (黃日東) <i>(An associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators)</i> 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Mr. Liang Jiawei (梁嘉瑋) No. 15, Lane 57, Longchang Road Yangpu District Shanghai PRC

CORPORATE INFORMATION

	<p>Mr. Wong Yat Tung (黃日東) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong</p>
Audit Committee	<p>Mr. Cai Jianmin (蔡建民) (<i>Chairman</i>) Mr. Yao Cho Fai Andrew (姚祖輝) Mr. Yan Xuehai (顏學海)</p>
Nomination Committee	<p>Mr. Yao Cho Fai Andrew (姚祖輝) (<i>Chairman</i>) Mr. Yang Guoping (楊國平) Mr. Cai Jianmin (蔡建民)</p>
Remuneration and Appraisal Committee	<p>Mr. Yao Cho Fai Andrew (姚祖輝) (<i>Chairman</i>) Mr. Yang Guoping (楊國平) Mr. Cai Jianmin (蔡建民)</p>
H Share Registrar	<p>Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong</p>
Principal Bankers	<p>Industrial and Commercial Bank of China, Shanghai Branch Century Finance Mansion No. 9 Pudong Avenue Pudong New District Shanghai PRC</p> <p>China Minsheng Bank, Shanghai Branch No. 100 Pudong South Road Pudong New District Shanghai PRC</p> <p>China Merchants Bank, Shanghai Branch Shanghai Merchant Mansion No. 161 Lujiazui East Road Shanghai PRC</p>

INDUSTRY OVERVIEW

The information presented in this section is, including certain facts, statistics and data, derived from the market research report (“CIC Report”) prepared by China Insights Consultancy Limited, which was commissioned by us and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy, completeness or fairness. The information and statistics may not be consistent with other information and statistics compiled within or outside of the PRC. As a result, excessive reliance on the information contained in this section shall be avoided.

INTRODUCTION

We commissioned CIC, a consulting company and an Independent Third Party, to conduct research and analysis of, and to produce a report on, China’s urban public utilities, financial investment, financial service market and other economic data at a fee of RMB1,050,000. The CIC Report has been prepared by CIC independent of our influence. CIC is a consulting firm founded in Hong Kong. It provides professional industry consulting across multiple industries. CIC’s services include industry consulting service, commercial due diligence, strategic consulting, etc.

Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent professional consulting company with extensive experience in their profession. The information and data collected by CIC have been analysed, assessed and validated using CIC’s in-house analysis models and techniques. The primary research was conducted via interviews with key industry experts and leading industry participants. The secondary research involved analysis of market data obtained from several publicly available data sources, such as National Bureau of Statistics of China and other industry associations. The methodology used by CIC is based on information gathered from multiple levels and allows such information to be cross-referenced for reliability and accuracy. On such basis we consider the data and statistics to be reliable.

The CIC report contains a variety of market projections which were produced with the following key assumptions: (i) China’s economy and industry development is likely to maintain a steady growth in the next decade; and (ii) related industry key drivers are likely to drive the growth of China’s urban public utilities, financial investment and financial service market in the forecast period, such as the increasing urbanization rate, increasing demand of urban public utility service and the emerging private economy; and (iii) there is no extreme force majeure or

INDUSTRY OVERVIEW

industry regulation in which the market may be affected dramatically or fundamentally. The reliability of the CIC Report may be affected by the accuracy of the foregoing assumptions and factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

Our Directors confirms that there is no adverse change in the market information since the date of the CIC Report which may qualify, contradict or have an impact on the information contained therein.

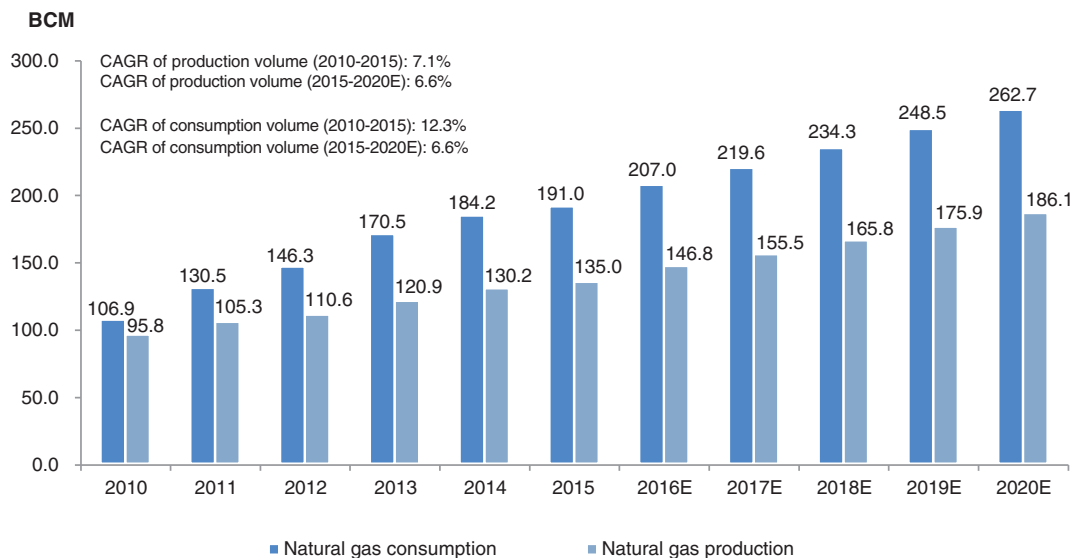
CHINA'S URBAN PUBLIC UTILITIES MARKET

China's city gas market

Production and consumption volume of China's natural gas

China's production volume of natural gas increased to 135.0 billion cubic meters in 2015 from 95.8 billion cubic meters in 2010, with a CAGR of 7.1% from 2010 to 2015. It is expected production volume will further grow at a CAGR of 6.6% between 2015 and 2020, reaching 186.1 billion cubic meters by 2020. Consumption volume of natural gas in China increased to 191.0 billion cubic meters in 2015 from 106.9 billion cubic meters in 2010, with a CAGR of 12.3% from 2010 to 2015. It is expected consumption volume will reach 262.7 billion cubic meters in 2020, with a CAGR of 6.6% between 2015 and 2020. The production volume of domestic natural gas was not able to fulfil the demand. China imports natural gas in order to make up shortage of natural gas supply. The reliance on import of natural gas is expected to continue in future.

The diagram below sets forth the production and consumption volume of natural gas in China for the indicated year:



Source: the CIC Report

INDUSTRY OVERVIEW

Market drivers of China's natural gas market

Implementation of environmental protection: the Chinese government has promulgated favourable policies to optimize the energy structure in order to tackle the problem of pollution. The ratio of consumption volume of natural gas in primary energy is expected to reach 10% and 12% by 2020 and 2030, respectively.

Government support: in recent years, the Chinese government has been implementing various measures to promote use of clean energy. Natural gas is expected to serve as an alternative for pollutational energy. Natural gas is a versatile energy resource that can be used for vehicles, heating facilities and plants. Compared with LPG and coal gas, natural gas is more environmental-friendly, so the government promotes use of natural gas.

Optimizing natural gas price structure: at present, the price of natural gas is under control of NDRC and local governments. In order to facilitate the development of the natural gas industry, the government has carried out natural gas price structure reform in some cities. Optimized natural gas price structure is expected to be more market-oriented. Thus the development of domestic natural gas market is likely to drive up natural gas supply.

Diversifying natural gas supply sources: in addition to conventional natural gas, unconventional natural gas, such as coal bed methane, tight gas and shale gas, have been explored and extracted in China. Unconventional gas is expected to experience rapid growth and increase its ratio within natural gas supply. The exploiting of unconventional natural gas is expected to optimize the energy structure in China and to mitigate the shortage in supply of natural gas. According to CNPC, the reserve of unconventional natural gas in China is large, including 37 trillion cubic meters of coal bed methane, 12 trillion cubic meters of exploitable tight gas and 26 trillion cubic meters of exploitable shale gas.

Entry barriers of China's city gas market

Concession and project experience: only the companies with concessions can enter the industry. Companies with good reputations and rich project experiences are more likely to be engaged by the government.

High initial capital requirement: if an enterprise plans to enter the city gas market in China, massive funds are needed to invest in initial preparation and a series of production facilities, such as construction and maintenance of facilities and pipeline network.

Advanced Technology requirement: advanced technology, such as storage security, leakage detection and safety inspection, is required for company to ensure profitable operation and to avoid accidents.

Supply volume of city gas in Shanghai

Supply volume of Shanghai's city gas was 9.9 billion cubic meters in 2010 and increased to 11.5 billion cubic meters in 2015 at a CAGR of 3.0% from 2010 to 2015, and is expected to reach 12.9 billion cubic meters in 2020 at a CAGR of 2.3% from 2015 to 2020.

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Natural gas has become a primary city gas resource since 2010. Supply volume of Shanghai's natural gas was 4.5 billion cubic meters in 2010 and increased to 7.2 billion cubic meters in 2015 at a CAGR of 9.9% from 2010 to 2015, and is expected to reach 9.5 billion cubic meters in 2020 at a CAGR of 5.7% from 2015 to 2020.

Supply volume of Shanghai's coal gas has kept decreasing since 2010. According to *the 12th Five Year Plan of Shanghai*, coal gas would no longer be supplied by the end of 2015.

The table below sets forth the actual and estimated supply volume of city gas for the years indicated:

	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR (2010– 2015)	CAGR (2015– 2020E)
Natural gas (BCM)	4.5	5.4	6.3	6.9	7.0	7.2	7.7	8.2	8.6	9.1	9.5	9.9%	5.7%
Coal gas (BCM)	1.4	1.2	0.9	0.6	0.3	0.1	–	–	–	–	–	-41.0%	-100%
LPG (BCM)	4.0	3.9	3.9	4.0	4.2	4.2	4.2	4.0	3.8	3.6	3.4	1.0%	-4.1%
Total city gas (BCM)	9.9	10.5	11.1	11.5	11.5	11.5	11.9	12.2	12.4	12.7	12.9	3.0%	2.3%

Source: the CIC Report

Competitive landscape of city gas in Shanghai

The natural gas for large-scale industrial users and power plants in rural areas in Shanghai is supplied by Shanghai Natural Gas Pipeline Network Company Ltd.

Shanghai Dazhong Gas ranked first among the three companies that supply natural gas in Shanghai's urban areas in terms of length of pipeline under operation in 2015.

Rank	Company	Length of pipeline under operation <i>(kilometer)</i>	Supply volume of natural gas <i>(BCM)</i>	Share among the three companies in terms of supply volume
1	Shanghai Dazhong Gas (大眾燃氣)	~6,325	~0.9	~36.0%
2	North Shanghai Gas (市北燃氣)	~6,000	~0.9	~36.0%
3	Pudong Gas (浦東燃氣)	~5,800	~0.7	~28.0%

Note: these three companies are the only suppliers of natural gas in Shanghai Urban Area.

Source: the CIC Report

INDUSTRY OVERVIEW

As the largest natural gas supplier in Shanghai in term of length of pipelines, Shanghai Dazhong Gas has been the sole supplier of piped natural gas in the South Puxi Area since 2001. Shanghai Dazhong Gas owned and maintained approximately 6,325 kilometers underground pipeline in the South Puxi Area. The South Puxi Area, where its natural gas is supplied by Shanghai Dazhong Gas. The per capita GDP of South Puxi Area was approximately RMB162.3 thousand and its GDP accounted for 19.0% of Shanghai's GDP in 2014. Meanwhile, the population of residents in the South Puxi Area was approximately 2,755.3 thousand, which accounted for 11.4% of Shanghai population in 2014.

In September 2014, Shanghai DRC adopted a tiered natural gas price structure for residential users in Shanghai. Under tiered natural gas price structure, natural gas price is based on the consumption volume of natural gas. The tiered price structure replaced the former natural gas price at a flat rate of RMB2.5 per cubic meter which was in place since 2008. The table below sets forth the retail price of natural gas for residential users in Shanghai since the implementation of the tiered natural gas price structure:

	Consumption volume per year	Retail price
	<i>(cubic meter)</i>	<i>(RMB per cubic meter)</i>
Tier one	0–310 (310 included)	3.0
Tier two	310–520 (520 included)	3.3
Tier three	More than 520	4.2

Source: China Insights Consultancy, Shanghai Municipal Gas Management Office

The table below sets forth the retail price of natural gas for non-residential users in Shanghai for the indicated years:

User category	Price (RMB/cubic meter)			
	2011–2012	2013	2014	2015
Caojing Cogeneration	2.22	2.62	2.82	2.40
Natural gas power generation	2.32	2.72	2.92	2.50
Chemical industrial area	2.57	2.97	3.17	2.75
Industrial users				
supplied by urban				
natural gas suppliers				
>5 million cubic meters	3.39	3.79	3.99	3.57
1.2–5 million cubic meters	3.89	4.29	4.49	4.07
<1.2 million cubic meters	4.19	4.59	4.79	4.37
Other non-residential users				
supplied by urban natural gas suppliers				
>5 million cubic meters	2.99	3.39	3.59	3.17
1.2–5 million cubic meters	3.49	3.89	4.09	3.67
<1.2 million cubic meters	3.79	4.19	4.39	3.97

Source: Shanghai Municipal Development and Reform Commission, China Insights Consultancy

INDUSTRY OVERVIEW

Since China's natural gas reserve is fixed, it is expected that Shanghai's natural gas retail price still has potential to increase.

Competitive landscape of city gas in Nantong Area

Nantong city is one of the major prefecture-level cities in Jiangsu Province. Based on the data of the Nantong Statistics Bureau, Nantong Area had over 7.3 million residents and a GDP of RMB614.8 billion in 2015. Nantong ranked third in Jiangsu province and 24th in China in terms of GDP in 2015.

We have expanded natural gas supply operation to Nantong Area since 2003 and is currently at the long-established leading position as a piped natural gas supplier in Nantong Area. Nantong Dazhong Gas is the dominant pipeline natural gas operator in Nantong Area under the concession to transmit and sell piped natural gas to customers in the operating area. Nantong Dazhong Gas accounted for approximately 80% of natural gas supplied in Nantong urban area in terms of volume in 2015.

The table below sets forth the retail price of natural gas for residential and non-residential users in Nantong Area for the indicated years:

<u>User category</u>	<u>Price (RMB/cubic meters)</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Non-residential users	4.20	4.20	4.20	4.11	4.11
Residential users	2.20	2.20	2.53	2.53	2.53

Source: Nantong Provincial Price Bureau, China Insights Consultancy

In January 2016, Nantong Price Bureau and Nantong Urban and Rural Construction Bureau adopted a tiered natural gas price structure for residential users in Nantong Area. Under tiered natural gas price structure, natural gas price is based on the consumption volume of natural gas. The table below sets forth the retail price of natural gas for residential users in Nantong Area since the implementation of the tiered natural gas price structure:

	<u>Consumption volume</u>	<u>Retail price</u>
	<u>per year</u>	<u>(RMB per cubic meter)</u>
	<i>(cubic meter)</i>	
Tier one	0–300 (300 included)	2.4
Tier two	300–600 (600 included)	2.8
Tier three	More than 600	3.6

Source: China Insights Consultancy, Nantong Provincial Price Bureau

Since China's natural gas reserve is fixed, it is expected that the price of natural gas in Nantong Area still has potential to increase.

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Competitive advantage of the Company

With experience in transmission and sale of piped natural gas and established market position and business relationships in the natural gas industry, the operation of natural gas is expected to be quickly replicable if we secure engagements for natural gas supply in other regions. Our leading market position and proven record in the sale and distribution of pipeline natural gas and pipeline construction in Shanghai and Nantong Area not only can provide a recurring stream of revenue, but also allow us to effectively develop and expand its business and facilities in other cities.

The Company commenced its piped gas supply operations in 2001. With years of natural gas distributing, the Company has accumulated valuable brand image, project experience and has maintained harmonious relationship with the government, which is expected to provide the Company with valuable insights about government urban planning and are able to better collaborate with the government strategy.

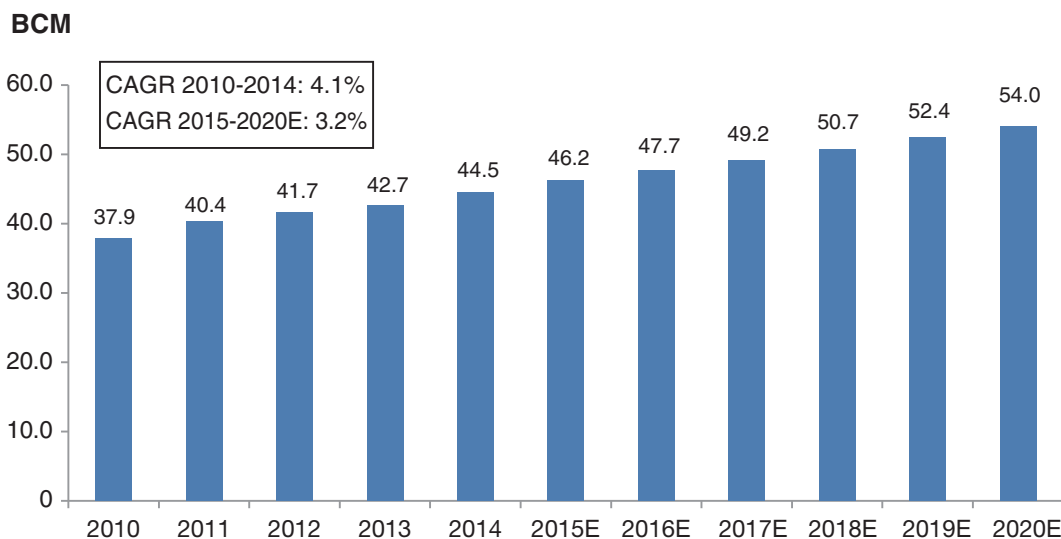
China's Municipal Wastewater Treatment Market

Overview of China's wastewater treatment market

Discharge volume of municipal wastewater in China

The total volume of municipal wastewater discharge in China increased from 37.9 billion cubic meters in 2010 to 44.5 billion cubic meters in 2014, with a CAGR of 4.1% from 2010 to 2014. With the development of China's economy and the fast-paced urbanization process, the discharge volume of municipal wastewater is likely to continuously increase in the future. The discharge volume of municipal wastewater in China is expected to reach 54.0 billion cubic meters in 2020, with a CAGR of 3.2% from 2015 to 2020.

The diagram below sets forth the discharge volume of municipal wastewater in China for the indicated years:



Source: the CIC Report

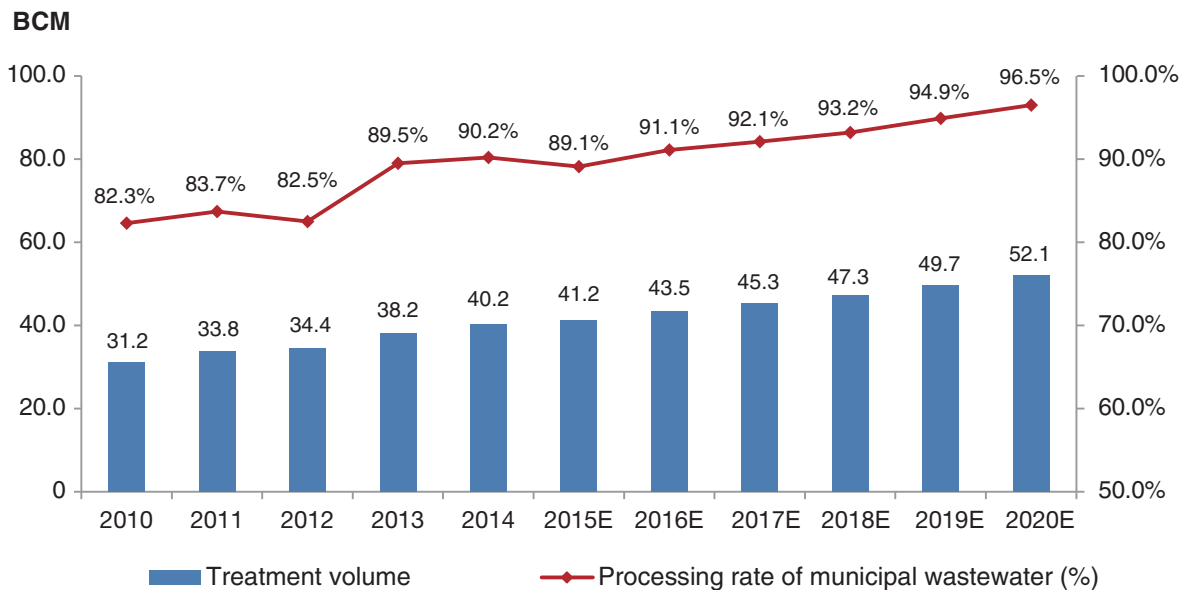
INDUSTRY OVERVIEW

Volume of China's municipal wastewater treatment

With the rising total treatment capacity of municipal wastewater treatment plants and treatment rate, the treatment volume of municipal wastewater has increased from 31.2 billion cubic meters in 2010 to 40.2 billion cubic meters in 2014, with a CAGR of 6.5% from 2010 to 2014 in China.

With support of the government and rising market demand, China's municipal wastewater treatment market has a significant increasing space. The treatment volume of China's municipal wastewater market is expected to reach 52.1 billion cubic meters in 2020 with a CAGR of 4.8% from 2015 to 2020. Average processing rate of municipal wastewater plants has steadily increased from 82.3% in 2010 to 90.2% in 2014. The average processing rate is expected to keep rising in the following years, reaching 96.5% in 2020.

The diagram below sets forth the volume of municipal wastewater treatment market in China for the indicated years:



Note: Processing rate refers to a ratio that equals to the volume of treated wastewater per year divided by volume of discharged wastewater per year.

Source: the CIC Report

Industry drivers of China's wastewater treatment market

Government support: it is widely believed that environment protection will continue to be a focal point in Chinese government's policy making. A number of key policies were issued to drive the municipal wastewater treatment market. Driven by the policy, *The Action Plan to Tackle Water Pollution*, wastewater treatment market is expected to increase rapidly in the coming years.

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Improvement of discharge standard: three levels of wastewater discharge standards were issued, and the standard with the lowest level (level 3) is widely applied in most regions in China. With the implementation of environmental protection, the discharge standard is likely to be improved. The improvement of discharge standard is a catalyst to increase wastewater treatment tariff. The improved discharge standard is estimated to require the operating company to upgrade wastewater treatment facilities and increase treatment cost. Driven by this, it is likely to increase wastewater treatment tariff and to drive the municipal wastewater treatment market.

Accelerating urbanization and steady industrialization: China's urbanization process is expected to be accelerated and industrialization process is estimated to continue. Driven by this, more wastewater treatment plants are likely to be built in small and medium-sized cities and the demand of wastewater treatment in large cities is estimated to grow further.

Driver of the action plan to tackle water pollution: *The Action Plan to Tackle Water Pollution* was issued by The State Council of China in April 2015. This plan proposes 10 measures including comprehensively controlling discharge of pollutants, enhancing scientific and technological support and making full use of a market-oriented system, etc. The private capital is encouraged to enter into the municipal wastewater treatment market. It is expected that a total amount of RMB2 trillion will be invested to tackle problems of water pollution in the next ten years.

Entry barriers of China's wastewater treatment market

Capital barrier: the construction of wastewater treatment plants and related ancillary facilities requires substantial funding. The investment payback period generally ranges from 5 to 10 years or longer. New entrants may therefore have trouble obtaining the necessary financing to cover initial investment and operating cost.

Certification barrier: local governments, which are often the grantor of the concession to operate wastewater treatment projects, prefer to engage companies with whom they have previously collaborated. This strong preference poses a barrier on new entrants. Local governments have set a lot of strict requirements and high standards for enterprises to enter the market, and closely supervise the performance of the investments in and operations of these enterprises.

Operation and technology barrier: the operating company is required to build a qualified wastewater treatment plant with high technical capability. Furthermore, operating team with deep understanding of wastewater treatment process management is required for the constructed BOT projects as well. However, high technical capability and rich experience are not easy to be accumulated in a short term. Thus, this is another barrier for the new entrants.

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Competitive landscape of wastewater treatment market in Shanghai

There are 45 wastewater treatment plants with wastewater treatment capacity of over 10 thousand cubic meters per day in Shanghai in 2014. The total wastewater treatment volume was approximately 2,200.9 million cubic meters in 2014 in Shanghai.

The table below sets forth the ranking of major competitors by wastewater treatment volume, Shanghai in 2014:

Rank	Company (Shanghai)	Number of wastewater treatment plants	Treatment volume (million cubic meter per year)
1	Shanghai Municipal Investment	18	1,745
2	Shanghai Dazhong Environment	1	49.1
3	Shanghai West Fengxian Wastewater Treatment	1	42.7
4	Shanghai Songshen Water Purification	1	41.9

Source: the CIC Report

The local government in Shanghai charges a wastewater treatment fee on tap water end users. The retail price of wastewater treatment in Shanghai charged by local governments is categorized by user type. With the promulgation of a series of environmental policies, the requirement on the quality of the treated wastewater in Shanghai is becoming increasingly strict. Therefore, the retail price of wastewater treatment is expected to increase correspondingly in the future.

The table below sets forth the retail price of wastewater treatment charged by local governments in Shanghai for the indicated years:

User type	2011 – 2015 Price (RMB/cubic meter)	User type	2016 Price (RMB/cubic meter)
Residential user	–	–	1.70
Non-residential user	Government user	Administrative User	2.24
	Normal user	Industrial and Commercial User	2.34
	High-pollution user	Special User	2.34

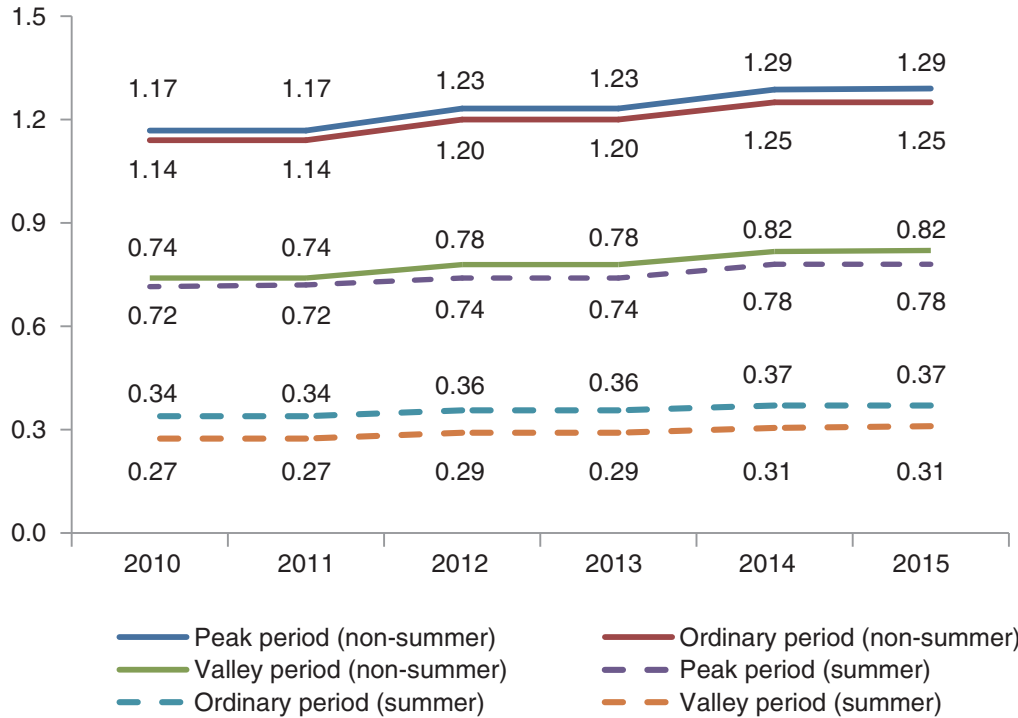
Source: China Insights Consultancy, Shanghai Municipal Development & Reform Commission

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Operational cost of wastewater treatment plant in Shanghai

Electricity cost accounts for a major part of the cost for wastewater treatment plants. The table below sets forth electricity price for industrial and commercial users in Shanghai for the indicated years.

RMB per KWh



Note: the electricity prices refer to the prices with voltage less than 1 kilovolt for industrial and commercial users.

Source: the CIC Report

Competitive landscape of wastewater treatment market in Xuzhou

There are 34 wastewater treatment plants, each of which has wastewater treatment capacity of 10 thousand cubic meters per day or above in Xuzhou. About 15 companies are related with operation of these plants. The total wastewater treatment volume was 305.9 million cubic meters in 2014 in Xuzhou.

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Rank	Company (Xuzhou)	Number of wastewater treatment plants	Treatment volume (million cubic meter per year), 2014
1	Jiangsu Dazhong Water	5	64.1
2	Anhui Guozhen Group	1	62.2
3	China Nuclear Industry 23 Construction Co., Ltd.	1	52.5
4	Xuzhou Xinshui State-owned Assets Management	3	24.5
5	Kangda International Environmental	2	18.4

Source: the CIC Report

Road tunnel market in Shanghai

Apart from economic development, urban infrastructure has experienced significant improvement in Shanghai. Fixed assets investment in urban infrastructure reached RMB105.7 billion in 2014, increasing by 1.3% over 2013. A large number of sub-centers, connection roads, road tunnels and other types of infrastructure projects have been built. By the end of 2015, 16 road tunnels are in operation in Shanghai. Meanwhile, 5 road tunnels are under construction, and 7 road tunnels are proposed to be constructed.

CHINA'S FINANCIAL SERVICE MARKET

Competitive landscape of China's micro-credit market

In China, micro-credit market is the money market where micro-credit companies provide micro-credit to support the development of SMEs and alleviate the financing burden of small business owners. Unlike direct financing, indirect financing is defined as the process of a borrower obtaining funds from a lender through a third party which could be banks or non-bank institutions that are engaged in financing business. Bank lending is the most frequent financing form in China. Bank lending has some obvious drawbacks, such as complicated loan review procedure, rigid restriction on loans and high barrier for SMEs. Borrowings of SMEs are typically of small size and urgent, which could hardly meet the lending requirements of banks. As an alternative solution to bank lending, non-bank lending has grown rapidly during the past years to meet the increasing capital need for SMEs. Micro-credit is one of the most important forms of non-bank lending.

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In 2015, the registered capital of China's micro-credit companies was RMB845.9 billion. The registered capital of micro-credit companies in Shanghai accounted for 2.2% of the national registered capital.

Industry drivers of China's micro-credit market include favourable government policies, rapid development of SMEs, growing financing guarantee market and convenient financing procedures.

Competitive landscape of China's financial leasing market

Number of companies in China's financial leasing market increased to 4,508 in 2015 from 261 in 2010, with a CAGR of 76.8% for 2010 to 2015.

Industry drivers of China's financial leasing industry include supportive government policies, increasing urban fixed assets investment and encouraging free trade area policies.

REGULATORY OVERVIEW

Our business operations are primarily conducted within China. Therefore our operations are subject to the requirements of the relevant Chinese laws, regulations and normative documents. A summary of such laws, regulations, and normative documents are as follows:

THE LAWS AND REGULATIONS OF THE PRC RELATING TO THE MUNICIPAL PUBLIC UTILITIES INDUSTRY

Natural Gas Supply and Sales Business

Gas development planning

On November 19, 2010, the State Council promulgated the *Measures on the Administration of Municipal Gas*, which were implemented on March 1, 2011 and later amended on February 6, 2016. The purpose of the Measures was to strengthen the management of municipal gas, to guarantee the supply of gas, and to prevent and reduce safety accidents involving gas, to safeguard the lives of citizens, the safety of their property and public safety, to protect the legitimate rights and interests of consumers of gas and to promote the healthy development of the gas industry.

Pursuant to the *Measures on the Administration of Municipal Natural Gas*, the competent department of the State Council in charge of construction in conjunction with the relevant departments of the State Council, organized, formulated and implemented a national natural gas development plan, based on the plan for national economic development and social development, and the master plan for utilization of land, township and rural planning and energy resource planning and combining the overall balancing of nationwide resources. Natural gas administrative departments of People's Governments at the county level or above in conjunction with the relevant departments in accordance with the plan for national economic development and social development, the master plan for utilization of land, township and rural planning, and energy resource planning, and the natural gas development plan of their superiors at the next higher level, organized and formulated natural gas development plans for their respective administrative regions and filing said plans to the People's Government at the same level, in order to organize and implement such plans after their approval from the People's Government. Said plans were also submitted for recordal by the natural gas administrative authority of the People's Government at the next higher level.

Gas operation and service

According to the *Measures on the Administration of Municipal Gas*, for gas supply facilities which are invested and constructed by the state, their gas operators shall be selected through public bidding. For gas supply facilities which are invested and constructed with social funds, the investors may independently operate the gas facilities or they may choose a third party gas operator. The state shall implement a system for licensing gas operations. Individuals are prohibited from engaging in gas pipeline operations. Enterprises which satisfy the provisions of the *Measures on the Administration of Municipal Gas* shall be subject to review

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and issuance of gas operations licenses by the gas administrative authority of the People's Government at the county level or above. The selling price of gas shall be reasonably determined and appropriately adjusted from time to time, based on the cost of purchasing gas, operating costs and local economic and social development levels. The competent price administration authority of the local People's Government at the county level or above shall determine and adjust the selling price of pipeline gas and shall solicit the opinions of consumers of pipeline natural gas, pipeline natural gas operators and relevant parties.

According to the *Measures of Shanghai Municipality on the Administration of Gas*, promulgated on January 25, 1999, implemented on May 1, 1999, and subsequently amended on October 10, 2003, October 10, 2007, and September 17, 2010 by the Standing Committee of the Shanghai Municipal People's Congress, the administrative department of the Shanghai Construction Administration (Shanghai Urban and Rural Construction and Management Commission) ("**Shanghai Construction Commission**") is the competent administrative authority in Shanghai in charge of gas and is responsible for organizing and implementing the above *Measures*. The Shanghai Gas Administrative Office under the Shanghai Construction Commission is responsible for actually carrying out the day to day administration of the gas industry in Shanghai and is authorized under the said *Measures* to issue administrative permits or impose administrative penalties.

A gas operating license must be obtained in order to engage in the production, distribution and sale of gas in Shanghai. The following conditions must be satisfied in order to apply for a natural gas operating license:

- (1) the applicant must have a stable gas source which complies with state standards or must have production capabilities which comply with the standards for the production of gas;
- (2) the applicant must have gas facilities which comply with state standards and which correspond to the appropriate scale of operations and to the appropriate operating category;
- (3) the applicant must have appropriate funds for the above scale of operations;
- (4) the applicant must have a fixed operational premise which complies with safety requirements;
- (5) the applicant must have professional administrative and technical personnel who are duly qualified and professional and qualified service personnel with proper training;
- (6) the applicant must have a comprehensive operations management system, and safety management system;
- (7) the applicant must have emergency repair personnel and equipment commensurate with the scale of operations and must have an emergency plan for handling gas accidents;

REGULATORY OVERVIEW

- (8) the applicant who engages in liquefied petroleum gas (“LPG”) operations shall have production facilities for shipping, receiving and unloading, storage, filling, and other matters, as well as an installation for handling the recovery of LPG residue; and
- (9) the applicant must meet other conditions required for under the laws and regulations.

Pursuant to the *Measures of Jiangsu Province on the Administration of Gas* promulgated by the Standing Committee of the Jiangsu Provincial People’s Congress on April 1, 2005 and implemented on July 1, 2005, a licensing system will be implemented for pipeline gas in Jiangsu Province. Enterprises applying for pipeline gas licenses must satisfy the following conditions:

- (1) the applicant must be an enterprise legal entity approved and registered according to law;
- (2) the applicant must satisfy the relevant safety production conditions;
- (3) the applicant must have excellent bank credit, financial conditions and the corresponding ability to pay off debts;
- (4) the applicant must have the relevant equipment;
- (5) the applicant must have appropriate production, service, management, engineering and technical personnel compatible with the applicant’s scale of production and operations;
- (6) the applicant must have a sound and feasible operating scheme; and
- (7) the applicant must satisfy other conditions required for under the laws and regulations.

Gas usage management

Pursuant to the *Measures of Jiangsu Province on the Administration of Gas*, gas operators shall provide gas to consumers in a consistent, stable and safe manner and may not discontinue or suspend operations or close their gas supply station without authorization. Consumers shall pay fees for the use of the gas on time and may not fall behind on or refuse to make payment. If a consumer fails to make payment by the payment deadline, the gas operator shall send a notice urging the consumer to pay the above gas usage fee.

Pursuant to the *Measures of Jiangsu Province on the Administration of Gas*, pipeline gas operations shall execute their general services obligations. Pipeline gas operators shall enter into a gas supply contract with units or individuals who file application to use pipeline gas and who are in compliance with the relevant conditions, to clarify the rights and obligations of the parties to the contract. A consumer of gas shall pay the fee for the gas on time.

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Gas facilities safety

Pursuant to the *Measures of Shanghai Municipality on the Administration of Gas*, gas operators shall strengthen their scheduled safety inspections of gas consumer facilities. Shanghai Gas Administrative Office and district and county gas administrative departments shall supervise the performance of safety inspections. Gas operators shall perform follow up inspections of consumer facilities free of charge every two years with respect to residential consumer gas meter apparatus outlets, and of installation and usage conditions, and shall provide consumers with technical guidance on the safe use of gas.

Pursuant to the *Measures of Jiangsu Province on the Administration of Gas*, a gas operator shall establish a responsibility system for the safe management of gas and a sound safety management network, and shall conduct scheduled inspections, repairs and upgrades of its gas facilities. If any hidden hazards which may result in an accident are discovered, they should be immediately eliminated. The gas operator shall make scheduled inspections of the gas consumer's gas meter, pipelines, and their auxiliary facilities, and the operating condition of gas apparatus. If it is discovered that the consumer has contravened the rules for the safe use of gas, the gas operator shall dissuade the consumer from so doing and shall stop the consumer from engaging in such behavior. The gas operator shall inspect pipeline gas facilities constructed by industrial mining enterprises and public utilities for their own use, and may supply them with gas only after it has been confirmed that said facilities are in compliance with safety requirements.

Prevention and handling of gas safety accidents

Pursuant to the *Measures of Shanghai Municipality on the Administration of Gas*, gas operators shall accept consumer requests for repairs 24 hours a day, and after receiving a request to perform repairs shall send staff to the site to perform repairs within the promised deadline or at a time agreed upon with the consumer. In the event that a gas leak is reported, the gas operator shall first inform the consumer with what emergency measures he or she must take and immediately dispatch staff to the site to perform emergency repairs.

Pursuant to the *Measures of Jiangsu Province on the Administration of Gas*, gas operators shall formulate emergency plans for dealing with gas safety accidents, shall be manned with emergency personnel, shall be equipped with the necessary emergency equipment and materials, shall organize scheduled emergency drills, and shall establish sound gas safety evaluation and risk management systems. In the event that a hidden hazard which may result in a gas safety accident is discovered, the gas operator shall immediately take measures to eliminate the hazard.

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Natural gas pricing mechanism

Pursuant to the *Pricing Law of the People's Republic of China* promulgated by the Standing Committee of the National People's Congress on December 29, 1997 and implemented on May 1, 1998, the state would implement and gradually improve the mechanism for pricing, primarily formed by market conditions under macroeconomic regulation and control. Market adjusted prices would be implemented for most goods and services. Government guided pricing or pricing set by the government would be implemented for a very small number of goods and services. Market adjusted pricing refers to pricing set by an operator based on cost of production and operating and market supply and demand. When necessary, the government may implement government guided pricing or government set pricing for (1) a small number of goods and services which have a strong and material connection with the development of the national economy and with the people's livelihood; (2) prices of a small number of goods with scarce resource; (3) prices of goods under natural monopoly operations; (4) prices in connection with important public utilities; and (5) prices of important services in the public interest. With the exception of government guided prices or government set prices applied in connection with the above stated provisions, pricing for goods and services shall be implemented based on market-adjusted prices, and shall be independently formulated by the operator.

The competent pricing authority of the State Council and its relevant departments shall formulate government guided prices and government set prices in accordance with their authority and specific range of application to set prices as provided for under the *Central Government's Catalogue of Set Prices*. Among these, prices guided by the government and prices set by the government for the prices of important goods and services shall be approved by the State Council in accordance with the regulations.

The competent pricing authorities and their relevant departments at the People's Governments of autonomous regions and of direct controlled municipalities of the Central Government shall formulate government guided prices and government set prices implemented in their respective localities in accordance with their authority and specific range of application to set prices as provided for under the *Local Catalogue of Set Prices*.

People's governments at the municipal and county levels may formulate government guided prices and government set prices implemented in their respective localities in accordance with the authority given by the Central Government to the People's Governments of the provinces, autonomous regions, or direct controlled municipalities of the Central Government, and may formulate government guided and government set prices implemented in their respective localities in accordance with their authority and specific range of application to set prices as provided for under the *Local Catalogue of Set Prices*.

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1. Reform of Natural Gas Prices

Pursuant to the *Notice of the NDRC on the Adjustment of the Price of Natural Gas* promulgated and implemented on June 28, 2013 (*Fa Gai Jia Ge* [2013] No. 1246) the Chinese government will control gateway station prices (and not ex-factory prices). Municipal gateway station prices are prices which are guided by the government and are implemented under the highest limit on the administration of prices. Parties may negotiate and determine specific prices within the highest limit on price ranges stipulated by the government. Gateway station prices shall apply to onshore natural gas produced in China and imported pipeline natural gas. Prices of liquefied natural gas, or LNG, shall be negotiated and determined by the parties who supply natural gas. The government policy on the relevant adjustment of fixed prices for natural gas was implemented on July 10, 2013. The main content of this policy is as follows:

- (1) The government shall establish a dynamic adjustment mechanism which reflects the degree of market supply and demand and scarcity of resources and which can be linked up with the price of alternative energy, to gradually rationalize the price of natural gas and to lay the foundation for ultimately achieving the complete marketisation of natural gas prices.
- (2) Natural gas price adjustments shall be divided into those for inventoried gas and those for incremental gas. Inventoried gas is those gas reserves which could actually be used in 2012. Incremental gas refers to that portion of natural gas which exceeds the amount of natural gas used in 2012. The gateway station price of incremental gas was further adjusted to a level of 85% of the price of alternative energy starting from the latter half of 2012 and shall no longer be categorized based upon the purpose for which it is used. The gateway station price of inventoried gas was appropriately raised, of which the actual amount of the maximum increase in the price of gas used for chemical fertilizer, based on existing gateway station prices, did not exceed RMB0.25 per cubic meter. The actual amount of the maximum increase in the price of gas based on existing gateway prices for gas used by other consumers did not exceed RMB0.4 per cubic meter.
- (3) Prices for natural gas used by residential consumers did not undergo any price adjustments. In 2013 the price of gas used by residential consumers in cities whose natural gas supplies had newly come on line was implemented in accordance with the policy for the gateway station price of inventoried gas at the provincial level. In 2013 after the adjustment of the price of natural gas, the highest gateway station price for natural gas used by non-residential consumers in areas of Jiangsu Province was RMB2.42 per cubic meter of inventoried gas and RMB3.30 per cubic meter of incremental gas. In Shanghai, the price for inventoried gas is RMB2.44 per cubic meter and the price for incremental gas is RMB3.32 per cubic meter.

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- (4) Each locality should reasonably arrange selling prices for natural gas used in vehicles in conjunction with actual local conditions.

According to the *Notice on the Implementation of Linked Adjustments in the Selling Prices of Gas for Non-residential consumers* in Shanghai, promulgated by Shanghai NDRC on July 29, 2013, and implemented on July 29, 2013 (*Hu Fa Gai Jia Guan* [2013] No. 13), the linked adjustments in the sales prices of gas for non-residential consumers in Shanghai were as follows: (1) selling prices of gas for non-residential consumers: the selling (benchmark) prices of natural gas for non-residential consumers were adjusted upward by RMB0.40 per cubic meter; the selling (benchmark) prices of manufactured gas for non-residential consumers were adjusted upward by RMB0.19 per cubic meter; (2) a policy of differential pricing for gas continued to be implemented; (3) residential prices continued to be implemented for various schools, retirement homes and other consumers for whom gas pricing standards for residential consumers had been implemented; (4) further rationalization of price relations between the price of natural gas and the price of gasoline used for vehicles: the price of natural gas supplied by various gas stations to buses running on natural gas was adjusted to RMB5.10 per cubic meter; (5) gas settlement prices between various operating enterprises were researched and determined by Shanghai Urban and Rural Construction and Transportation Commission in conjunction with the relevant units; (6) adjusted sales prices for gas used by non-residential consumers were implemented starting August 1, 2013. On September 12, 2013, Shanghai Municipal and Rural Construction and Transportation Commission issued the *Notice of the Shanghai Urban and Rural Construction and Transportation Commission on Corresponding Adjustments to Settlement Prices for Enterprises Engaged in the Sale of Gas After the Adjustment of Gas Sales Prices for Non-residential Consumers in Shanghai* (*Hu Jian Jiao* [2013] No. 933) to decide the relevant adjustments to the settlement prices of Shanghai Gas (Group) Co., Ltd., and various gas sales companies. This adjustment was implemented on August 1, 2013, after which the gas settlement prices for non-residential consumers increased 1% to 8% of RMB0.40 multiplied by the proportion of volume consumed by non-residential consumers of each sales company.

According to the *Notice on Provisionally Setting Municipal and District Prices on the Sale of Pipeline Natural Gas Used by Non-residential Consumers* promulgated by Nantong Municipal Price Bureau on October 25, 2013 and implemented on October 1, 2013, (*Tong Jia Xing* [2013] No. 252), the standard sales price of pipeline natural gas used by non-residential consumers in Nantong's municipal districts and Development Zone would be RMB3.82 per cubic meter, with a floating price range of 10% (ten percent) and a maximum sales price of RMB4.20 per cubic meter. Specific sales prices would be determined by Nantong Dazhong Gas Co., Ltd., and Dazhong Gas Co., Ltd. in Nantong Development Zone, within a guided price range and would be implemented starting October 1, 2013.

According to the *Notice of the Jiangsu Province Price Bureau on Transmittal of the NDRC Notice on the Adjustment of Natural Gas Prices* issued and implemented on July 11, 2013, (*Su Jia Gong* [2013] No. 246), price bureaus of all cities and counties in Jiangsu Province, in consideration of their own actual circumstances, should formulate and implement schemes for

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these natural gas price adjustments before September 1, 2013. The said *Notice* also stipulated that sales prices for natural gas used in vehicles would be independently adjusted by each locality in accordance with changes in the cost of purchasing natural gas.

2. *Starting in 2014, Gradual Implementation of a Tiered Pricing System for Gas Used by Residential Consumers*

According to the *Guiding Opinion on Establishing a Sound System for Tiered Pricing of Gas Used by Residential Consumers*, promulgated by the NDRC on March 20, 2014, (*Fa Gai Jia Ge* [2014] No. 467), a sound nationwide tiered gas pricing system for gas used by persons on a daily basis (all gas supplied to residential homes through municipal gas pipeline networks) would be established in order to further promote the sustainable, healthy development of the natural gas market, safeguard people's basic requirements for the use of gas, and encourage people to use gas in a reasonable manner and conserve gas.

(1) Basic Principles

Residential consumers who used more gas would commensurately bear a greater burden.

(2) Main content:

1. Determination of levels of gas usage: based on satisfying different gas usage requirements, gas usage by residential consumers is divided into three levels, of which:

Level One: Gas usage is determined based on average monthly usage by 80% of residential household consumers in the coverage area, to ensure that basic usage requirements for use of gas by residents are met.

Level Two: Gas usage is determined based on average monthly usage by 95% of residential household consumers in the coverage area to achieve improvements and an increase in the quality of life for residents in their requirements for the reasonable use of gas.

Level Three: Gas usage exceeds the portion of gas usage indicated in Level Two.

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2. Arrangement of price levels for gas: progressive price increases with respect to excessive amounts will be implemented for each price level of gas usage, of which:
- Level One Gas Pricing will be determined according to the principle of providing basic compensation for the cost of supplying gas.
 - Level Two Gas Pricing will be determined according to the principle of providing basic compensation for the cost of supplying gas and for obtaining reasonable profits. Price levels in principle will be approximately 1.2 times higher than Level One price levels.
 - Level Three Gas Pricing will be formulated based on the principle of fully reflecting the degree of the shortage of natural gas resources, in order to control excessive consumption. Price levels in principle will be approximately 1.5 times higher than Level One price levels.

According to the *Notice of the Shanghai Urban and Rural Development and Transportation Commission on Abolishing Fees for Gas Facilities (Hu Jia Guan [2014] No. 7)*, various gas enterprises in Shanghai will no longer charge a gas facilities fee for residential consumers who file an application to install new gas units or services. This *Notice* supersedes the *Notice* originally issued by Shanghai Municipal Pricing Bureau (*Hu Jia Gong [2002] No. 025*). Various gas enterprises and other units may not under any other auspices or by any other means charge fees for gas facilities.

According to the *Official Letter of Reply of the Shanghai Municipal Development and Reform Commission on the Adjustment of Pipeline Gas Prices for Residential Consumers in Shanghai* promulgated by Shanghai Municipal Development and Reform Commission on August 4, 2014 and implemented on September 1, 2014, (*Hu Fa Gai Jia Guan [2014] No. 13*), residential pipeline natural gas tiered pricing implemented by Shanghai Municipality: (1) will be divided into levels based on the volume of gas consumed; based on national guidelines, gas volume consumed for residential use is divided into three levels, determined, respectively, based on 80% of the average monthly usage in the coverage area, 95% of average monthly usage in the coverage area, and that portion of gas usage which exceeds the preceding level of 95%; based on the actual situation for Shanghai, annual gas usage for households corresponding to Level One is 0–310 (inclusive) for every cubic meter; annual gas usage for households corresponding to Level Two is 310–520 (inclusive) for every cubic meter; annual gas usage for households corresponding to Level Three is 520 or more for every cubic meter; (2) will be divided into levels based on the price of gas. Progressive price increases with respect to excessive volume amounts will be implemented for each price level for gas volume. The price for gas at the First Level will be increased by RMB0.50 per cubic meter, an adjustment from the current price of RMB2.50 per cubic meter to RMB3.00 per cubic meter.

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Level Two gas pricing will be 1.1 times higher than Level One pricing, i.e., RMB3.30 per cubic meter. Level Three gas pricing will be 1.4 times higher than Level One pricing, i.e., RMB4.20 per cubic meter.

On April 11, 2014, Jiangsu Provincial Price Bureau promulgated the *Notice of the Provincial Price Bureau on Matters in Connection with the Establishment of a Sound Tiered Pricing System for Residential Use of Gas* (Su Jia Gong [2014] No. 118) which required all cities with gas services located inside Jiangsu Province to establish and complete a tiered price system for residential use of gas by the end of 2015. In accordance with satisfying different gas usage requirements, residential gas usage would be divided into three levels. Under Level One and Level Two, gas usage would be determined based on 80% and 95%, respectively, of average monthly usage by residential household consumers in the respective coverage areas. Sources involving independent use of gas for heating purposes were uniformly included in the tiered pricing system. Principles for Level One, Level Two and Level Three gas pricing respectively were approximately based on a ratio of 1.1:1.2:1.5. Non-residential consumer gas prices with respect to implementing residential consumer gas prices, were determined based on average levels of Level One and Level Two gas prices for local residents. In principle, the family residence was used as the unit for implementing tiered prices for gas used by residents.

3. Adjustment of Prices for Gas Usage by Non-residential Consumers in 2014

According to the NDRC *Notice on Adjusting Natural Gas Prices of Inventoried Gas Used by Non-Residential Consumers* (Fa Gai Jia Ge [2014] No. 1835) promulgated by the NDRC on August 10, 2014 and implemented on September 1, 2014 in order to carry out important tasks under the overall arrangement for deepening systemic reform in the economy in 2014, in accordance with the fixed objective of adjusting and merging natural gas prices based on natural gas volume and incremental natural gas amounts in 2015, NDRC made further adjustments to the price of natural gas stocks for non-residential use. After said adjustments had been made, the highest selling price of gas stocks for non-residential use was raised to RMB0.4 per cubic meter, while no adjustments were made to the gateway station price of natural gas for residential use. The selling price of natural gas for use in vehicles can be independently determined, taking into account actual circumstances at each locality. The government policy for adjusting fixed prices of said natural gas started to be carried out from September 1, 2014.

According to the *Notice on the Implementation of Linked Adjustments in the Selling Prices of Gas for Non-residential Consumers in Shanghai*, promulgated by Shanghai Municipal Development and Reform Commission (“**SMDC**”) on September 25, 2014 (*Hu Fa Gai Jia Guan* [2014] No. 19) in addition to the requirements under document *Fa Gai Jia Ge* [2014] No. 1835, an upward adjustment of RMB0.20 per cubic meter was made in the selling (benchmark) prices of various types of natural gas used by non-residential consumers, and the price of natural gas supplied to buses which ran on natural gas was adjusted to RMB5.30 per cubic meter, effective from October 1, 2014.

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According to the *Notice on the Adjustment of the Settlement Prices of Natural Gas of the Municipality* promulgated on November 18, 2014 by Shanghai Municipal Development and Reform Commission (Hu Jian Guan [2014] No.1001), relevant adjustments to the settlement prices of natural gas between Shanghai Gas (Group) Co., Ltd. and each gas sales company shall be made in accordance with the adjustment of the selling prices of piped natural gas for residential consumers and the selling (benchmark) prices of natural gas for non-residential consumers pursuant to “Hu Fa Gai Jia Guan [2014] Article No.13” and “Hu Fa Gai Jia Guan [2014] Article No.19”. The selling prices of natural gas for residential and non-residential consumers were adjusted upward by RMB0.50 per cubic meter (at the First Level) and RMB0.20 per cubic meter, respectively. The settlement prices between Shanghai Gas (Group) Co, Ltd. and sales companies were adjusted upward accordingly by 1% to 8% of the sum of (1) RMB0.50 multiplied by the proportion of volume consumed by non-residential consumers of each sales and (2) RMB0.20 multiplied the proportion of volume consumed by non-residential consumers of each sales company.

On August 27, 2014, the Jiangsu Provincial Price Bureau promulgated the *Notice of the Jiangsu Provincial Price Bureau on the Transmission of the NDRC Notice on Adjusting Natural Gas Prices on Inventoried Gas Used by Non-residential Consumers (Su Jia Gong [2014] No. 295)*, which required that the competent pricing authorities at various cities and towns in Jiangsu Province, in accordance with the above-stated Notice (*Fa Gai Jia Ge [2014] No. 1835*) promulgated by the NDRC, formulate and implement their own respective price adjustment policies, but without making any price adjustments with respect to natural gas prices for natural gas used by residential consumers. However, prices on natural gas used by non-residential consumers would be adjusted on September 1, 2014, in accordance with the adjustment of prices for inventoried natural gas. According to the said policy, the new price of inventoried natural gas used by non-residential consumers would be RMB2.82 per cubic meter. The selling price of natural gas used by vehicles would be determined by each locality according to independent price adjustments made based on changes in the cost of purchasing natural gas. After this adjustment in the price of natural gas, the highest gateway station price for natural gas among the districts in Jiangsu Province was RMB2.82 for each cubic meter of inventoried natural gas and RMB3.30 for each cubic meter of incremental gas.

4. *Prices of Inventoried Gas and Incremental Gas with Respect to Gas Used by Non-resident Entities Were Merged in 2015*

According to the *Notice of the NDRC on Rationalizing Prices of Natural Gas Used by Non-Residential Consumers* promulgated on February 26, 2015, and implemented on April 1, 2015, (*Fa Gai Jia Ge [2015] No. 351*), the main content is as follows: (1) the prices of inventoried gas and incremental gas would be merged, to rationalize the price of natural gas used by non-residential consumers; (2) pilot projects for lifting restrictions on gateway station prices of gas used by residential consumers (excepting chemical fertilizer enterprises) whereby the party supplying the product and the party demanding the product would negotiate and set a price; (3) prior to the merger of the prices, no adjustments would be made to gateway station prices of gas used by residential consumers.

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According to the *Notice on Adjusting the Selling Price of Pipeline Natural Gas Used by Non-Residential Consumers in Nantong Municipality and Its Districts*, promulgated by Nantong Municipal Price Bureau on May 22, 2015 and implemented on May 30, 2015, (*Tong Jia Chan* [2015] No. 78), the standard price for pipeline natural gas used by non-residential consumers in Nantong Municipality's districts and Development Zone would be adjusted down to RMB3.74 per cubic meter, with a price float range of 10% and the maximum selling price would not exceed RMB4.11 per cubic meter. Specific selling prices would be determined by Nantong Gas Co., Ltd., and Dazhong Gas Co., Ltd. in Nantong Development Zone. within the range of price guidelines. This *Notice* would be implemented on May 30, 2015 (please refer to the attached document).

According to the *Notice of Jiangsu Provincial Price Bureau on the Transmission of the Notice of the NDRC on Rationalizing Prices of Natural Gas Used by Non-Residential Consumers* promulgated on March 2, 2015 (*Su Jia Gong* [2015] No. 67), this *Notice* in addition to containing the provisions of the preceding *Notice* (*Fa Gai Jia Ge* [2015] No. 351), contained the following newly added provisions; (1) the prices of inventoried gas and incremental gas would be merged; after the prices had merged, in Jiangsu Province the highest gateway station price for natural gas would be RMB2.86 per cubic meter, and the selling prices of natural gas in Jiangsu Province would be formulated by each city and county; (2) after April 1, 2015, the gateway station price for gas used by residential consumers in cities where gas use had been newly added would be implemented based on a price of RMB2.86 per cubic meter after the price merger; (3) the selling price of natural gas used in vehicles would be independently adjusted by each locality based on changes in the cost of purchasing natural gas.

5. *Adjustment of Prices of Gas Used by Non-Residential Consumers in 2015*

On November 18, 2015, NDRC made further adjustments to the prices of natural gas used by non-residential consumers, and promulgated the *Notice on Lowering the Price at Gateway Stations for Natural Gas Used by Non-Residential Consumers and Further Promoting Price Marketisation Reform* (*Fa Gai Jia Ge* [2015] No. 2688), which contained the following content:

- (1) lowering the gateway station price of gas used by non-residential consumers: the highest station price for gas used by non-residential consumers would be lowered to RMB0.7 per cubic meters; and
- (2) raise the degree to which the price for natural gas becomes marketized: change administration of the price from administration of the price at the highest gateway station to administration of the price at a benchmark gateway station. After the price drop, price levels at the highest gateway station would become the benchmark gateway station price. Supply side and demand side parties can use the benchmark price of the gateway station as the basis for their pricing, and can negotiate and determine specific gateway station prices within a range from an upward float of 20% and to an unlimited downward float. At the time that the scheme is implemented, gateway station prices will not float upwards for the time being, and will be permitted to float upward starting from November 20, 2016. The aforementioned scheme shall be implemented starting on November 20, 2015.

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After this natural gas price adjustment, the benchmark gateway station price for natural gas for non-residential consumers in Shanghai Municipality and its districts shall be RMB2.18 per cubic meter and the benchmark gateway station price for natural gas for non-residential consumers in Jiangsu Province and its districts shall be RMB2.16 per cubic meter.

According to the *Notice on the Implementation of Linked Adjustments in the Selling Prices of Natural Gas for Non-residential consumers in the Municipality* promulgated on November 30, 2015 by the Price Bureau of Shanghai Municipality (*Hu Jia Guan* [2015] No.11), the selling (benchmark) prices of natural gas for each type of non-residential consumers in Shanghai Municipality were lowered by RMB0.42 per cubic meter, implemented from December 1, 2015.

According to the *Notice on the Adjustment of the Settlement Prices of Natural Gas of the Municipality* promulgated on December 31, 2015 by Shanghai Municipal Housing and Urban-Rural Construction Administration (*Hu Jian Guan* [2015] No. 1082), relevant adjustments to the settlement prices of natural gas between Shanghai Gas (Group) Co., Ltd. and each gas sales company shall be made in accordance with the adjustment of the selling prices for non-residential consumers pursuant to “*Hu Jia Guan* [2015] Article No.11” and “*Fa Gai Jia Ge* [2015] Article No.2688”. The settlement prices were lowered accordingly by 1% to 8% of RMB0.436 multiplied by the proportion of volume consumed by non-residential consumers of each sales company.

According to the *Notice on Lowering the Maximum Selling Price of Pipeline Natural Gas Used by Non-Residential Consumers in the Nantong Municipal Area*, promulgated by Nantong Municipal Price Bureau on December 23, 2015, the highest selling price for pipeline natural gas used by non-residential consumers in Nantong Municipality’s municipal districts was adjusted downward to RMB3.36 per cubic meter with no restriction on downward float. This Notice was implemented since December 20, 2015.

6. *In 2015, Nantong Municipality Implemented a Tiered Pricing System for Natural Gas Used by Residential Consumers and a Linked Selling Price Mechanism for Pipeline Natural Gas Used by Residential Consumers*

On November 26, 2015, Nantong Municipal Price Bureau and Nantong Urban and Rural Construction Bureau promulgated the *Notice on Prices for Pipeline Natural Gas Used by Residential Consumers in the Nantong Municipal Area* (*Tong Jia Xing* [2015] No. 181), the principal content of which is as follows:

- (1) A tiered pricing system shall be implemented for the selling prices of pipeline natural gas used by residential consumers in the Nantong Municipal area. The basic unit in this equation is a residential family of four. Total annual consumption of natural gas by a residential family is divided into three tiers. In Tier One, the base number for gas volume is 300 cubic meters (inclusive) or less, sold at a price of RMB2.40 per cubic meter. In Tier Two, the base number for gas volume is from 300 to 600 (inclusive) cubic meters, sold at a price of RMB2.80 per cubic meter. In Tier Three, the base

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number for gas volume is 600 cubic meters or more, sold at a price of RMB3.60 per cubic meter. Tiered gas prices are calculated according to the natural year. A family household has four people or more. For every additional person in a household, the base number for gas volume consumed will be increased by 75 cubic meters, respectively. For schools, nurseries or kindergartens, retirement homes or welfare organizations, social and public services facilities, or small residential areas which share facilities, the selling price is RMB2.40 per cubic meter.

- (2) Establish a linked selling price mechanism for pipeline natural gas used by residential consumers. When the cumulative degree of change in prices in adjustments to the prices of upstream natural gas gateway stations reaches or exceeds 5% (five percent), while maintaining an unchanging differential ratio between the tiered gas volume and tiered pricing, adjustments will be made in the same direction as the degree of the change in price to the selling prices of pipeline natural gas used by residential consumers. If the cumulative degree of the change does not reach 5% (five percent) or if during the same linked movement cycle, after implementing a linked movement, there is another change in the gateway station price of natural gas, this change will be cumulatively calculated in the following linked movement cycle. The linked movement cycle may be adjusted from time to time according to adjustments in state gateway station prices, generally for no less than six months.

The above scheme was implemented since January 1, 2016.

Wastewater Treatment Industry

Qualifications and requirements for Wastewater treatment enterprises

Pursuant to the *Provisions on Municipal Drainage and Wastewater Treatment* promulgated by the State Council on October 2, 2013 and implemented on January 1, 2014, entities engaged in the maintenance and operation of municipal drainage and wastewater treatment facilities shall meet the following conditions: (1) an entity must be qualified as a legal person; (2) an entity must have adequate funding and appropriate equipment for maintenance and operation of municipal drainage and wastewater treatment facilities; (3) an entity have established operations management and safety management systems; (4) an entity must have technical personnel and personnel in key positions who have been trained and who have been qualified under the relevant examinations; (5) an entity must have a good track record and relevant experience in maintenance and operations; (6) an entity must meet other conditions as required under the laws and regulations. The competent authorities in charge of maintenance and operation of municipal wastewater treatment facilities shall enter into contracts of maintenance and operation with entities responsible for maintenance and operation of municipal wastewater treatment facilities, to clearly define the rights and obligations of both parties. Entities responsible for maintenance and operation of municipal wastewater treatment facilities shall conduct maintenance and operations in compliance with the laws, regulations and relevant provisions as well as with the said contracts of maintenance and operation, shall make regular

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disclosures of maintenance and operation information to the public, and shall be subject to supervision by the relevant authorities and the general public

Pursuant to the *Law of the PRC on Prevention and Control of Water Pollution*, amended on February 28, 2008 and implemented on June 1, 2008, and its detailed implementing regulations, the State shall implement a system under which permits for pollutant discharge shall be issued. A company which operates centralized facilities for treatment of municipal wastewater shall obtain a pollutant discharge permit. Enterprises and institutions which do not have a permit or which contravene the rules under the discharge permit are prohibited from discharging wastewater or wastewater into bodies of water.

Pricing

Pursuant to the *Law of the PRC on Prevention and Control of Water Pollution* and the *Administrative Regulations on the Levy and Use of Pollutant Discharge Fees* promulgated by the State Council on January 2, 2003 and implemented on July 1, 2003, a pollutant discharge fee shall be levied on and paid by enterprises and institutions or individual industrial or commercial entities which directly discharge pollutants into bodies of water, according to the types and quantities of the pollutant discharge and based on the standard for levying said fee. Enterprises, institutions or entities which pay wastewater treatment fees to discharge wastewater to centralized facilities for treatment of municipal wastewater shall not pay additional pollutant discharge fees. Pollutant discharge fees may be waived, if the water quality of water discharged by centralized facilities for treatment of municipal wastewater is in accordance with standards stipulated by the state or local authorities for water pollutant discharge.

According to the *Measures on Municipal Drainage and Wastewater Treatment*, promulgated and implemented by the NDRC and the former Ministry of Construction on September 23, 1998, and the *Administrative Measures on the Price of Water Supplied to Municipalities* revised on November 29, 2004, work units and individuals who discharge water shall pay a wastewater treatment fee. The wastewater treatment fee shall be included in the price of water supplied by a municipality, and shall be levied based on the range of the water supplied by a municipality and on the volume of water used by a consumer. The price of water supplied by a municipality shall be determined under a system whereby hearings are conducted and public announcements are made. For concession contracts and entrusted operations contracts which involve wastewater treatment operations service fees, the competent municipal drainage authority shall solicit the opinions of the competent environmental protection authority and the competent pricing administration authority. With regard to the supply of municipal water involving consumers, especially related to water supply facilities which monopolize the supply of water, pricing standards for major items such as construction, maintenance and services (such as installation of consumer management network units, enlarged capacity, maintenance, and measurement instruments), labor fees, major raw materials, and infrastructure, etc. shall be verified and set by the pricing administration authority of the People's Government where it is located, in conjunction with the competent, municipal water supply administrative authority at

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the same level. The billing standard (amount charged) for wastewater treatment fees shall not be lower than the normal operating cost of the municipal wastewater treatment facility. If the wastewater treatment fee collected is insufficient to cover the normal operating cost of the municipal wastewater treatment facility, a subsidy may be provided by the local People's Government, as deemed necessary.

According to the *Circular of the NDRC, the Ministry of Finance, the Ministry of Housing and Urban and Rural Development on Issues Related to the Formulation and Adjustment of the Standard Charges for Wastewater Treatment Fees* promulgated on January 21, 2015, the standard charges should make up for the operating cost and reasonable profit generated by the wastewater treatment facility. Before the end of 2016, the standard charge for the treatment of municipal wastewater should in principle be adjusted to no less than RMB0.95 per ton for residents and no less than RMB1.40 for non-residents. For county seats and key towns, in principle, the standard charge should be adjusted to no less than RMB0.85 for residents and RMB1.2 for non-residents. Wastewater treatment fees charged should be further increased in accordance with pollution prevention and control circumstances if the minimum fee standard still fails to cover costs and reasonable profits. Cities, counties and key towns which heretofore have not levied wastewater treatment fees shall at the latest begin to levy such fees by the end of 2015 and shall construct and commence operation of wastewater treatment facilities within three years.

Water quality

The water quality of domestic drinking water provided by various means of centralized and non-centralized water supplies in urban and rural areas shall comply with the standards set out in the *Health Standards for Drinking Water Quality* (GB5749-2006) implemented on July 1, 2007. The water quality of effluent flowing from municipal wastewater treatment plants shall comply with the standards set out in the *Discharge Standards for Pollutants Discharged by Municipal Wastewater Treatment Plants* (GB18918-2002) promulgated on December 3, 2002 and amended on May 8, 2006. According to the *Law of the PRC on Prevention and Control of Water Pollution* promulgated on May 11, 1984 and amended on May 15, 1996 and February 28, 2008, companies operating centralized treatment facilities for municipal wastewater shall be responsible for the quality of the effluent discharged by the wastewater treatment plant.

Concessions in Public Utilities Projects

According to the *Opinion on Accelerating the Marketisation of Municipal Public Utilities* promulgated and implemented by the former Ministry of Construction on December 27, 2002, and the *Measures for Administration of Municipal Public Utility Concessions* promulgated by the former Ministry of Construction on March 19, 2004, implemented on May 1, 2004, and amended on May 4, 2015, and the *Opinion of the Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities* promulgated and implemented on September 10, 2005 (collectively referred to as the “**Administrative Measures**”), municipal public utility concessions refer to a system under which the government pursuant to the provisions of the relevant laws

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and regulations selects investors or operators of municipal public utilities through market competition mechanisms, whereby it is clearly set forth that the said party during a certain period and within a certain scope shall operate a certain municipal public utility product or provide a certain service. Municipal water supply, gas supply, heating supply, public transportation, wastewater treatment, garbage disposal, and relevant industries or municipal public utility projects operate under municipal public utility concession are subject to the relevant regulatory supervision.

The purpose of the above Administrative Measure is to accelerate and promote the marketisation of municipal public utilities, to regulate public utility concession activities, to strengthen market supervision, to safeguard the public interest and public safety, and to promote the healthy development of municipal public utilities. Implementation of projects which involve concessions is undertaken by the provincial or autonomous region authority, and by authorities in municipalities which are directly under the central government and is determined by lawful means and procedures. Government agencies shall select investors or operators of municipal public utility projects through public solicitation of bids pursuant to the relevant laws and regulations, and shall enter into concession agreements with said investors or operators and shall give them concession rights. The Administrative Measures stipulate that all municipal public utility projects shall enter into concession agreements before the beginning of the concession term. However, the Administrative Measures also stipulate that concessions which fail to comply with the said requirements may rectify the situation by entering into a concession agreement in a timely manner.

According to the *Measures for the Administration of Infrastructure and Public Utility Concessions* promulgated in April 2015 by the NDRC, the Ministry of Finance of the People's Republic of China (“**MOF**”), the Ministry of Housing and Urban and Rural Development, the Ministry of Transportation of the People's Republic of China (“**MOT**”), the Ministry of Water Resources of the People's Republic of China (“**MOWR**”) and PBOC and implemented on June 1, 2015, the Measure further provides for concession for infrastructure and public utilities. For the purpose of these Measures, concession for infrastructure and public utilities means that the government authorize a legal person or any other organization from inside and outside the territory of the People's Republic of China according to the law, by competitive mode, to engage in investment, construction, and operation of infrastructure and public utilities within a certain time limit and scope and earn profits as stipulated in an agreement that specifies the rights, obligations, and risk sharing, to provide public products or public services. Those have entered into a concession agreement under the law before the implementation of such measure shall be conducted according to such agreement.

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Concession

Concession for infrastructure and public utilities may be conducted by the following ways:

- (1) Within a time limit, the government authorizes a concessionaire to invest in and construct, or renovate and expand, and operate infrastructure and public utilities, and the concessionaire transfers the project back to the government at the expiration of the time limit;
- (2) Within a time limit, the government authorizes a concessionaire to invest in and construct, or renovate and expand, as well as possess and operate infrastructure and public utilities, and the concessionaire transfers the project back to the government at the expiration of the time limit;
- (3) After a concessionaire invests in and constructs, renovates and expands infrastructure and public utilities, and transfers the project back to the government, the government authorizes the concessionaire to operate within a time limit;
- (4) Other ways as prescribed by the state.

Concession project

Concession projects for public utilities are determined by each province, autonomous region and province-level municipality through the forms and procedures provided by law.

Term of concession project

The term of concession for public utilities shall be determined in light of the industry characteristics, the public products provided or service needs, the project life cycle, the investment payback period, and other integrated factors and shall not exceed 30 years at a maximum. For a concession project of infrastructure and public utilities with large investment scale and long payback period, the government or its authorized department may, in light of the reality of the project, agree on a term of concession exceeding the term as prescribed in the preceding paragraph, with the concessionaire.

Where it is necessary to extend the term of concession, it shall be extended with adequate assessment and validation according to relevant requirements upon agreement and approval.

Formulation and implementation of concession project

Relevant industry authorities of local people's governments at or above the county level or the departments authorized by the government may, according to the development needs of the economy and society and the proposals put forward by relevant legal persons and other organizations on concession projects, put forward implementation plans on concession

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projects. Concession projects shall be reported to the people's government at the same level or the department authorized thereby for examination and approval of the implementation plans of concession projects. The people's governments at or above the county level shall authorize relevant departments or entities as the implementing institutions to be responsible for relevant implementation work of concession projects and specify the specific scope of authorization.

Implementing institutions shall, according to the approved implementation plans of concession projects, choose concessionaires through bidding, competitive negotiation, and other competitive modes.

Implementing institutions shall enter into concession agreements under the law with the selected concessionaire.

Revenue from concession project

Pursuant to relevant laws, regulations and state provisions, concession agreements may provide for charging users or other ways for revenue of concessionaires. Where the charge for users is inadequate for concession constructions, operating costs and reasonable revenue, the government may grant available allowance, including rights for other development and operation granted by the government related to such concession project. Concession agreements shall provide for determination of specified price or charge as well as adjustment mechanism. The price or charge for concession projects shall be determined and adjusted according to relevant laws, regulations and concession agreements.

Performance of concession agreement

Each party of concession agreement shall abide by the principle of good faith in performing their obligations under the agreement.

Concession agreements involving new construction or reconstruction or expansion of infrastructures and public utilities shall comply with construction conditions and standards as stipulated by relevant laws and regulations on urban and rural planning, land control, environmental protection, quality control and safe production.

Concessionaires shall provide quality, uninterrupted, efficient and safe public products or public services under relevant laws, regulations, standards and concession agreements.

Concessionaires shall conduct periodic inspection and maintenance on concession projects according to technical specifications, so as to ensure normal operation of the utilities and delivery of assets as required upon expiry.

Concessionaires shall be subject to the duty of confidentiality in relation to national security and establish and implement related confidential system.

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Where concessionaire are required to provide products or services beyond concession agreement due to amendments of laws and regulations, or policy adjustment which harm the interests of concessionaire, or for public interests, such concessionaire should be compensated.

Termination of concession project

Upon expiry or early termination of concession agreement, the involved parties shall complete performance tests, assessments, delivery, taking over, acceptance of utilities, information and files and other procedures according to concession agreement as well as relevant laws, regulations and requirements.

Upon expiry or early termination of concession agreement, where the infrastructure and public utility shall continue to be operated under concession, implementing institutions shall conduct new selection on concessionaire.

Where new selection is conducted upon expiry, the original concessionaire shall be prioritized for such concession under equal conditions.

Prior to selection of new concessionaire, implementing institution and original concessionaire shall formulate measures to secure stable supply of public products or public services.

Supervision on concession project and protection of public interests

The departments of State Council concerning reform, finance, land, environmental protection, housing and urban-rural construction, transportation, water resources, energy, fiscal, safety supervision shall, according to their respective duties, be responsible for formulation of regulations and policies for concession of infrastructures and public utilities as well as supervision of related fields.

The departments of People's Government above the country level concerning reform, finance, land, environmental protection, housing and urban-rural construction, transportation, water resources, energy, fiscal, safety supervision shall, according to their respective duties, be responsible for implementation and supervision of concession projects.

The relevant departments of People's Government above the country level shall, according to their duties, conduct supervisions on the concessionaire's implementation of laws, regulations, industrial standards, technical specifications of products and services, and other relevant supervision requirements.

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Concessions for the Wastewater Treatment Industry

According to the *Measures for Municipal Drainage and Wastewater Treatment*, the government shall encourage different forms of activity such as obtaining concession rights, or government procurement of services, to attract the participation of social capital in investment, to construct and operate municipal drainage and wastewater treatment facilities. After construction of municipal drainage and wastewater treatment facilities is completed and said facilities pass quality inspection, the competent authorities in charge of municipal drainage shall by various means such as solicitation of bids, consignment, etc., determine which enterprise that engages in facilities maintenance and operations satisfies the conditions to take responsibility for the management of the facility. The Chinese government encourages the implementation of a system under which municipal wastewater treatment concessions are granted. The competent authorities in charge of municipal drainage shall enter into maintenance and operations contract with the enterprise that maintains and operates the municipal wastewater treatment facility, to clearly define the rights and obligations of both parties.

According to the *Measures for the Administration of Concessions for the Infrastructure of Shanghai Municipality*, promulgated by the Shanghai Municipal People's Government on December 20, 2010 and implemented on May 1, 2011 (Order No. 55 of the Shanghai Municipal People's Government), construction and operation of gas supply, wastewater treatment, and other urban infrastructure projects in the Shanghai administrative region could be implemented by means of a concession. A concession may take the following forms: (1) within a certain term, the government shall authorize the operator of a concession to invest in, construct, and operate an urban infrastructure program, which after the expiration of the term shall be handed over without consideration to the government; (2) within a certain term, the government shall authorize the operator of a concession to operate an urban infrastructure project which has been constructed, which at the expiration of the term shall be handed over without consideration to the government; and (3) any other form of concession agreed to by the Shanghai Municipal People's Government. The competent authorities in charge of industry in Shanghai shall be responsible for the specific implementation and administrative oversight of concession projects in the Shanghai administrative region, and, under the authority of the Shanghai People's Government, for entering into concession agreements; People's governments at the district and county level are responsible for the specific implementation and administrative oversight of concession projects which provide services in designated district and county administrative regions and for entering into concession agreements. After an implementation scheme has been approved by the Shanghai Municipal People's Government, the agency implementing the concession project shall through the invitation and submission of bids select a party to operate the concession; the operator of a concession may be determined through competitive negotiations if there are no bidders, or if bidders fail to conform to the conditions of the bid.

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According to the *Administrative Measures of Environmental Protection of Jiangsu Province for the Centralized Wastewater Treatment Facilities* promulgated on May 7, 2011 and enacted on July 1, 2011 by Jiangsu Provincial People's Government, the concessions system shall be implemented for the centralized treatment of urban wastewater in accordance with the national regulations.

According to the *Administrative Measures of Zhejiang Province for the Centralized Treatment of Municipal Wastewater*, promulgated by the Zhejiang Provincial People's Government on October 19, 2009, and implemented on January 1, 2010, the operating enterprise shall undergo qualification to operate a wastewater treatment facility in accordance with the relevant environmental protection regulations of the state. The enterprise which shall operate the concession shall be determined by fair competition through the invitation and submission of bids or other such means. The enterprise operating the concession shall obtain concession rights in accordance with the state regulations on the administration of municipal public utility concessions.

Gas Industry Concessions

The *Authorization and Regulation Procedures of Piped Gas Concessions in Shanghai* was promulgated by the Shanghai Municipal Projects Administration (now known as the "Shanghai Urban and Rural Construction and Administration Commission") on June 1, 2005 and implemented on July 1, 2005. The Shanghai Municipal Office of Gas Administration is responsible for the daily regulations of concessions engaged in piped natural gas operations in Shanghai. The competent authorities in charge of the administration of natural gas operations in Chongming County, Pudong New Area, Minhang District, Baoshan District, Jiading District, Jinshan District, Songjiang District, Nanhui District, Fengxian District, and Qingpu District in Shanghai shall assist in the implementation of daily regulations of piped natural gas enterprise concessions within the scope of the above region. The competent authorities in charge of the administration of gas operations in compliance with the principles of "openness, impartiality, fairness, and competitive selection" shall determine the concession operator through the invitation and submission of bids and by means of direct consignment, and shall grant consignment rights. With respect to maintenance of existing pipelines in accordance with municipal planning, the competent authorities in charge of the administration of gas operations shall through a certain procedure, by means of direct consignment, grant pipeline natural gas concession rights to natural gas enterprises with pipelines which currently serve pipeline natural gas consumer regions, and which conform to the conditions for granting concessions, With respect to new construction of pipelines or expanded construction of existing pipelines to serve natural gas consumer regions, the competent authorities in charge of the administration of gas operations shall through the invitation and submission of bids grant pipeline natural gas concession rights to a gas enterprise which conforms to the conditions for granting concessions.

On July 5, 2006, the former Department of Construction of Jiangsu Province (now known as "Housing and Urban and Rural Construction Department of Jiangsu Province") promulgated and implemented the *Measures for the Administration of Pipeline Gas Concessions in Jiangsu*

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Province, aiming to regulate activities of piped natural gas concession in Jiangsu and to safeguard the public interest and public safety. The competent authorities in charge of administering construction in the province are responsible for guiding and regulating pipeline natural gas concessions throughout Jiangsu Province. The competent authorities in charge of construction (municipal public utilities) and administration at cities divided into districts and counties (municipalities) authorized and entrusted by the municipal government (hereinafter collectively referred to as “competent construction administration authorities”) shall be responsible for the implementation of pipeline natural gas concessions and the regulation of enterprises which are granted concessions in their respective administrative regions. The implementation of pipeline natural gas concession projects must be approved by the People’s Governments in cities divided into districts and counties (municipalities). According to Article 22 of the *Administrative Measures of Jiangsu Province for the Administration of Gas Concessions*, prior to the implementation of the *Measures of Jiangsu Province for the Administration of Gas*, enterprises which are already engaged in pipeline natural gas construction and operations but which do not yet operate under a concession system, shall in accordance with the relevant provisions of the *Measures of Jiangsu Province for the Administration of Gas* duly implement the relevant concession system and enter into concession agreements to clearly define the content and requirements of the concessions and shall report their activities to the competent construction administration authorities at the next higher level for filing and recordal.

Capital Fund System

According to the *Notice of the State Council on Trial Implementation of Capital Fund System Fixed Assets Investment Projects* promulgated and implemented on August 23, 1996 by the State Council of the People’s Republic of China (“**State Council**”), the *Notice of the State Council on Adjusting the Capital Fund Ratio of Fixed Asset Investment Projects* promulgated and implemented by the State Council on May 25, 2009, and the *Notice of the State Council on Adjusting and Improving Capital Fund System in Fixed Asset Investment Projects* promulgated and implemented by the State Council on September 9, 2015, since 1996, trial implementation has started for the capital fund system of various operating fixed assets investment projects, including basic construction, technical reconstruction, real estate development projects and collective investment projects of state-owned enterprises. Under trial implementation for capital fund system, investment projects must have capital fund in place before they can undertake construction firstly. Under the capital fund system, total investment in an investment project in addition to debt capital acquired by the project legal entity from banks or from capital markets, an investor must also invest a certain percentage of capital as capital funds for the project. Investment project capital funds refer to the amount of the capital contribution subscribed to by an investor in the investment project’s total investment. With respect to the project, these constitute non-debt funds for which the project legal entity assumes no interest payment or debt obligations. An investor may enjoy the rights and interests of an owner according to the proportion of his capital contribution, and may assign their capital contribution. However, an investor may not in any manner or form withdraw their capital contribution. Capital funds for an investment project shall be paid in one lump sum and shall be proportionally put in place year after year in accordance with the schedule of the approval of construction.

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According to the capital fund system, an investor must invest a certain percentage of capital as capital funds in the project venture. The specific percentage shall be determined by the authority which reviews and approves the project, based on the investment project's future economic returns, the bank's loan commitment, and the assessment opinion on the project, and shall be verified at the time that the project's feasibility studied is reviewed and approved.

PRC LAWS AND REGULATIONS RELATED TO PRODUCTION SAFETY

According to *The Production Safety Law of the PRC* promulgated by the Standing Committee of the National People's Congress and implemented on November 1, 2002, and later amended on August 27, 2009 and August 31, 2014, enterprises when conducting operations shall satisfy the conditions for production safety stipulated under the relevant laws and regulations and under state standards or industry standards. Enterprises which fail to satisfy the conditions for production safety may not engage in production operations activities. Safety facilities in connection with an enterprise's new construction, reconstruction or expanded construction project must be designed simultaneously with the main structure under construction, must be simultaneously built, and must be commissioned and put into use at the same time as the main structure. The design, manufacture, installation, use, inspection, maintenance, reconstruction and scrapping of safety equipment shall comply with state or industry standards. The production, operation, shipping, storage, and use of hazardous items by an enterprise or the disposal of hazardous items which have been scrapped, must be executed in accordance with the relevant laws and regulations, and state standards or industry standards. The enterprise shall establish a dedicated safety management system, take reliable safety measures, and submit to regulation and supervision by the relevant competent authorities.

According to the *Measures on Production Safety Licenses* promulgated and implemented by the State Council on January 13, 2004 and amended on July 18, 2013 and July 29, 2014, the state shall implement a system for licensing enterprises engaged in the construction of buildings. Prior to commencing production, an enterprise shall file an application with the agency which issues and administers production safety licenses to obtain a production safety license. An enterprise engaged in the construction of buildings may not undertake construction activities if it fails to obtain a production safety license.

The competent departments at the State Council in charge of construction shall be responsible for issuing and administering production safety licenses for enterprises engaged in the construction of buildings and shall obtain permission from the Central Government to issue and administer the above. A production safety license shall be valid for a term of 3 years.

CHINESE LAWS AND REGULATIONS RELATED TO ENVIRONMENTAL PROTECTION

According to the *Environmental Protection Law of the PRC* promulgated and implemented by the Standing Committee of the National People's Congress on December 26, 1989, enterprises which pollute the environment and otherwise harm the public interest must take

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effective measures to prevent and control pollution and harm caused to the environment. Project facilities for the prevention and control of pollution must be designed, constructed and commissioned and put into use at the same time as the main structure under construction. The commencement of construction or the commissioning and use of a construction project shall not be approved before the facilities for the prevention and control of pollution pass inspection by the competent environmental protection authorities. The amended *Environmental Protection Law of the PRC* was promulgated on April 24, 2014 and implemented on January 1, 2015.

The following important clauses have been added to the amended *Environmental Protection Law of the PRC*:

- (1) The government shall adopt fiscal, tax, pricing, and government procurement policies and measures to encourage and support the development of the environmental protection industry, which includes the relevant environmental protection technology and equipment, the integrated utilization of resources, and environmental services. Enterprise, public agency, and other production operators, based on their compliance with the standards for pollutant discharge under the law, shall further decrease their discharge of pollutants, and the relevant government agencies shall adopt fiscal, tax, price and government procurement policies to encourage and support them in this regard.
- (2) Project facilities for the prevention and control of pollution shall be designed, constructed, commissioned and put into use at the same time as the main structure under construction. Pollution prevention and control facilities shall comply with the requirements of the approved environmental impact assessment documents and may not be torn down or left idle without authorization.
- (3) The state shall implement a system for administering licenses for the discharge of pollutants under the provisions of the law. Enterprises, public agencies and other production operators, shall discharge pollutants in compliance with licensing requirements. Entities which do not obtain the above license may not discharge pollutants.
- (4) Enterprises, public agencies, and other production operators who discharge pollutants in contravention of the law shall be subject to fines and penalties and shall be ordered to rectify the situation. If they refuse to rectify the situation, the administrative agency rendering the decision to impose a penalty according to law may impose the penalty on a daily basis in accordance with the amount of the original penalty commencing from the day following the date on which the above party was ordered to rectify the situation. The penalty shall be enforced based on the regulations and determined by such factors as the operating cost of the pollution prevention and control facility, the direct losses resulting from the contravention of the law, or the income obtained from contravention of the law, etc. Local regulations may

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augment the types of contraventions under which penalties may be continually imposed on a daily basis under the above regulations.

- (5) Construction units which fail to submit environmental impact assessment documents for construction projects in accordance with the law or whose environmental impact assessment documents fail to be approved and who without authorization commence construction activities shall be ordered to halt construction by the government department responsible for regulating and overseeing environmental protection, and may be subject to a fine or penalty or may be ordered to restore the project site to its original condition.

According to the *Law of the People's Republic of China on Environmental Impact Assessment* promulgated by the Standing Committee of the National People's Congress on October 28, 2002 and implemented on September 1, 2003, and the *Regulations on the Classification, Review and Approval of Environmental Impact Assessment Documents for Construction Projects* promulgated by the Ministry of Environmental Protection of the People's Republic of China on January 16, 2009 and implemented on March 1, 2009, the Chinese government has established a system for conducting environmental impact assessments of construction projects, under which environmental impact assessment reports on construction projects are classified and administered based on the degree to which a construction project impacts the environment. Environmental impact assessment reports must be compiled on projects which may have a major impact on the environment and a full assessment shall be made of the environmental impact which may result from the project. If a project may have a light impact on the environment, an environmental impact report sheet shall be compiled and an analysis or dedicated assessment of the resulting environmental impact shall be performed. If the environmental impact is negligible, it is not necessary to conduct an environmental impact assessment, and an environmental impact registration form shall be filled out and submitted. Environmental impact assessment documents must be approved by the competent administrative authorities before construction may begin.

According to the *Measures for the Administration of Environmental Protection for Construction Projects* promulgated and implemented by the State Council on November 29, 1998, and the *Measures for Administering the Inspection and Acceptance of Environmental Protection Items for Construction Projects Upon Their Completion* promulgated by the former State Environmental Protection Administration on December 27, 2001 implemented on February 1, 2002, and amended on December 22, 2010, prior to the test run of construction project, the enterprise which performed the construction shall submit an application to perform a test run to the competent environmental protection administrative authority which is authorized to conduct reviews and render approvals. Prior to the operation or use of construction project, the enterprise which performed the construction shall file an application with the competent environmental protection authority which is authorized to conduct reviews and render approvals, requesting said authority to inspect and approve the completed construction project and its related environmental protection items.

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In addition, according to the *Law of the People's Republic of China on the Prevention and Control of Water Pollution*, promulgated by the Standing Committee of the National People's Congress on May 11, 1984, implemented on November 1, 1984, and later amended on May 15, 1996 and June 1, 2008, and the *Detailed Implementing Measures of the Law of the People's Republic of China on the Prevention and Control of Water Pollution*, promulgated and implemented by the State Council on March 20, 2000, operators of centralized urban wastewater treatment facilities shall obtain pollution discharge licenses.

According to the *Action Plan for the Prevention and Control of Water Pollution* (“**Water Action Plan**”) promulgated and implemented by the State Council on April 2, 2015, the objectives of the Water Action Plan were (1) by the year 2020, water environment quality nationwide would experience phased-in improvements and the number of bodies of water with serious pollution would be greatly reduced, and safety assurance standards for drinking water would continue to be upgraded; there would be a decrease in the overuse of underground water; severe pollution of underground water would be initially brought under control; the environmental quality of ocean areas adjacent to the coast, and the water ecology of the environment in Beijing, Tianjin and Hebei would improve; and (2) by the year 2030, efforts would have been made to improve the quality of the ecological environment nationwide, so that by the middle of the 21st century, ecological systems would operate under a beneficial cycle. In order to achieve the above-said goals, the following 10 measures shall be taken: (1) further control the discharge of pollutants and enforce measures to minimize pollutant discharge; treat pollution originating from industry, urban wastewater, agriculture and villages, ships and harbors; (2) promote the transformation and upgrading of economic structures; utilize industrial water, recycled water and sea water; promote the development of water recycling; (3) implement multiple measures for the ongoing conservation and protection of water resources; implement the strictest type of water resource management; control the overall use of water; increase the efficient use of water and safeguard the ecological flow of important rivers and streams; (4) strengthen scientific and technological support; promote advanced technology; strengthen basic research; strengthen the regulation of the market for environmental protection industries; accelerate the development of the environmental protection services industry; (5) the relevant government agencies shall accelerate water price reforms, establish sound tax policies; promote diverse investment; establish incentives for promoting restoration of the aquatic environment; (6) strictly regulate the enforcement of environmental laws; severely punish actions which contravene the law and harm the environment; impose severe penalties on illegal construction projects; (7) duly strengthen the management of aquatic environments; the relevant government agencies should severely restrict the total volume of pollutant discharge and should control environmental risks; (8) the relevant government agencies shall make their greatest efforts to protect the safety of the aquatic ecological environment, including protecting the safety of drinking water sources, preventing and controlling the pollution of underground water, and preventing and controlling the pollution of key drainage basins and strengthening the protection of bodies of water and marine environments. Basically eliminate dark, foul-smelling bodies of water from urban built-up areas by the year 2017; (9) clearly define and implement the multiple responsibilities of government agencies and enterprises; local governments are primarily responsible for protecting aquatic environments; the central

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government shall conduct annual inspections of the implementation of water action plans for drainage basins, regions and marine areas, respectively. Enterprises which discharge water pollutants must strictly comply with the relevant laws and regulations; and (10) strengthen public participation and public scrutiny in environmental matters; the government shall make regular announcements on information related to aquatic environments in accordance with the laws and regulations.

PRC LAWS AND REGULATIONS RELATED TO PLANNING AND CONSTRUCTION PERMITS

Land Use Rights

According to the *Land Administration Law of the PRC* promulgated by the Standing Committee of the National People's Congress on June 25, 1986, implemented on January 1, 1987, and later amended in December 1988 and on August 29, 1998 and on August 28, 2004, state-owned land may be granted or allocated for use to a construction unit or to an individual person in accordance with the law. The use of the state-owned land by a construction unit or by an individual person in accordance with the law shall be registered and booked by the People's Government at the county level or above, which shall issue a land use certificate for such state-owned land to confirm the land use rights thereof.

According to the *Catalogue of Land Allocated for Use* promulgated and implemented on October 22, 2001 by the Ministry of State-Owned Land and Resources, the construction unit shall file an application for land items used for construction purposes in compliance with the said Catalogue. Land use rights may be allocated after the application has been approved by a People's Government which is authorized to render such approval.

Construction Land Use Planning Permit

According to the *Urban and Rural Planning Law of the PRC* promulgated by the Standing Committee of the National People's Congress on October 28, 2007 and implemented on January 1, 2008, and later amended on April 24, 2015, a Construction Land Planning Permit is needed for the use of both allocated land and granted land.

If a construction unit who was authorized to use the construction land fails to obtain a Construction Land Use Planning Permit, the People's Government at or above the county level shall withdraw the authorization to use the state-owned land. If the land has already been occupied, it shall be returned promptly. Furthermore, the construction unit shall be obliged to compensate for any damage caused to any other relevant parties according to law.

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Construction Work Planning Permit

According to the *Urban and Rural Planning Law of the PRC*, if a construction project is undertaken in a district that is under the jurisdiction of urban or township planning, the construction unit or the individual must file an application with the competent urban and rural planning authority at the municipal or county level People's Government or with the township level People's Government confirmed by the People's Government of the relevant province, autonomous region, or city directly under the central government, to apply for a planning permit for a construction project.

If a party undertakes construction without obtaining a planning permit for a construction project or fails to undertake construction in accordance with the provisions of the said permit, the competent urban and rural planning authority at the county level or above shall issue order the party to halt construction; if it is possible to take measures to rectify the situation and eliminate the impact on the implementation of urban and rural planning, rectification of the situation may be undertaken by a certain deadline; a fine shall be imposed amounting to 5% or more and 10% or less of the price for the construction of the project. If measures cannot be taken to rectify the situation and eliminate the impact on the implementation of said planning, any structures under construction must be demolished by a certain deadline. If said structures are not demolished, any relevant physical objects or illegal income shall be confiscated and a fine may be imposed in the amount of 10% or less of the price for the construction of the project.

Construction Work Commencement Permit

According to the *Construction Law of the PRC* promulgated by the Standing Committee of the National People's Congress on November 1, 1997, implemented on March 1, 1998, and later amended on October 9, 2007 and April 22, 2011, prior to commencing work on a construction project, the construction unit shall in accordance with the relevant state regulations file an application to obtain a construction permit for a building project with the competent administrative authorities of the People's Government at the county level or above at the place where the project is located. Small scale projects which fall within the quota set by the competent administrative departments at the State Council which are in charge of construction, and construction projects for which a construction report may be submitted in accordance with the authority and procedures stipulated by the State Council are exempted from the above provision.

According to the *Administrative Regulation of Construction Work Quality* promulgated and implemented by the State Council on January 30, 2000, if a construction entity carries out construction work without obtaining a Construction Work Commencement Permit or in circumstances where its construction commencement report has not been approved, it shall be ordered to stop the construction work and to make corrections within a certain time limit. The construction entity shall also be fined not less than 1% but not more than 2% of the contractual project price.

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Acceptance Checks of Construction Projects

According to the *Administrative Regulation of Construction Work Quality and the Measures for the Administration of Housing Construction and Urban Infrastructure Projects with Respect to Inspection and Acceptance Upon Completion and Recordal* promulgated and implemented on October 19, 2009, a construction project may be handed over for use only after it has been inspected and has passed inspection. The construction unit shall file an application for recordal of the project with the competent authorities in charge of construction at the place where the project is located within 15 days after the construction project has been completed and has passed inspection.

If the construction unit without authorization hands over the project after failing to organize inspection and acceptance procedures upon completion of the construction of the project or after the project has failed to pass inspection, the construction unit shall be ordered to rectify the situation and shall be subject to a fine of more than 2% (two percent) and less than 4% (four percent) of the price of the project contract. If the construction unit's actions incur losses, the construction unit shall assume liability to provide compensation in accordance with the law. If the construction unit fails to carry out recordal of inspection and acceptance within 15 days after the date on which the project has completed construction and has passed inspection, the authority in charge of recordal shall order the construction unit to rectify the situation by a certain deadline and shall penalize the construction unit with a fine of not less than RMB200,000 but not more than RMB500,000.

PRC LAWS AND REGULATIONS RELATED TO THE FINANCIAL LEASING INDUSTRY

The Contract Law of the PRC

The *Contract Law of the PRC* (“**PRC Contract Law**”) was promulgated on March 15, 1999 and implemented on October 1, 1999, to regulate civil contractual relations between natural persons, legal entities, and other organizations. Article 14 of the PRC Contract Law lists the mandatory provisions of financial leasing agreements.

According to the PRC Contract Law, financial lease agreements shall be concluded in writing and shall record names, quantities, specifications, technical functions and inspection methods, lease terms, composition of lease funds, payment terms, payment methods and currency, and ownership rights and various other terms in connection with the items under the lease agreement at the time that the lease agreement expires.

According to the financial leasing contract, the lessor shall take the selections made by the lessee with regard to the seller and the leased property as the basis for consummating the purchase agreement and the seller must hand over the leased property to the lessee in accordance with the agreement. The lessee shall enjoy the rights of a purchaser at the time that it receives the leased property. Without the consent of the lessee, the lessor may not amend the relevant details concerning the lessee in the purchase agreement which has been consummated based on the selections made by the lessee with regard to the seller and the leased property.

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With respect to the use and maintenance of the leased property, the lessee must carefully handle and properly use the leased property. The lessee has the responsibility to perform maintenance and repairs on the leased property during the time that the leased property is under the lessee's care. The lessor shall in no way be held responsible with regard to third party physical injuries or property damage incurred during the time that the leased property is under the lessee's care. On the other hand, the ownership of the leased property shall still revert to the lessor.

The lessor and the lessee may come to an agreement with regard to who enjoys the ownership rights to the leased property at the time that the lease term expires. If no agreement has been made with respect to who enjoys the ownership rights to the leased property at the time that the lease agreement expires, or if the relevant provisions are not clear with regard to this matter, or if the issue of ownership cannot be resolved under the PRC Contract Law, the ownership of the leased item shall revert to the lessor. If the two parties agree that the ownership of the leased property shall revert to the lessee at the time that the lease agreement expires, and the lessee has paid the major portion of the lease fees but fails to pay off the remaining balance, and the lessor based on this reason terminates the agreement and takes back the leased property, if the value of the leased property which the lessor has taken back exceeds the remaining balance on the lease fees and any other fees owed by the lessee, the lessee may request the lessor to refund a certain portion of the fees which the lessee has paid.

The PRC Contract Law includes a general directive which provides that the interest rate on interest collected from the customer under the financial leasing agreement shall be calculated in the purchase cost of the relevant property or asset under the financial leasing agreement and also shall allow for a reasonable interest rate on the part of the lessor, unless the parties to the agreement conclude a separate agreement with regard to this matter.

Measures for Administering the Supervision of Financial Leasing Enterprises

Under the *Measures for Administering Foreign-Invested Leasing Business* promulgated by the MOFCOM on February 3, 2005 and implemented on March 3, 2005, and the *Measures for Administering the Supervision of Financial Leasing Enterprises* promulgated on September 18, 2013 and implemented on October 1, 2013, MOFCOM implements supervision and management of financial leasing enterprises throughout China and is the competent industry authority and competent approval authority in charge of administering foreign-invested leasing business. The competent MOC authority at the provincial level is responsible for supervising leasing enterprises in its respective administrative area. MOC is an administrative agency of China's State Council and is responsible for formulating government policy with respect to the relevant foreign trade and import and export normative regulations, foreign direct investment, consumer assurances, market competition, and negotiation of bilateral and multilateral trade agreements.

Financial leasing enterprises may choose to launch and develop their financial leasing business in the form of direct leasing, sub-leasing, after-sales lease back, leveraged leasing,

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entrusted leasing, joint leasing, etc., in compliance with the relevant, laws, regulations and rules. Financial leasing enterprises shall in accordance with MOC requirements use a nationwide financial leasing enterprise management information system, and shall promptly and factually submit the relevant data to this system. They shall submit a statistical report on operating conditions for one quarter along with a brief explanation within 15 working days after the end of each quarter.

Measures for the Administration of Foreign-Invested Leasing Business

The *Measures for the Administration of Foreign-Invested Leasing Business* govern foreign-invested enterprises organized in China by foreign investors (such as foreign companies, enterprises organized as Sino-foreign equity joint ventures, and other economic organizations, Sino-foreign enterprises organized as cooperative joint ventures or equity joint ventures, and wholly foreign-owned enterprises) which engage in the leasing business or financial leasing business and which conduct business activities. A foreign investor with total assets of not less than USD5,000,000 (Five Million US Dollars) may obtain permission to file an application with MOC to organize a wholly foreign-owned financial leasing company in China. A foreign-invested financial leasing company must comply with the following conditions: (1) its registered capital must not be less than USD10 million; (2) the operating term of a foreign-invested financial leasing company organized as a limited liability company generally shall not exceed 30 years; and (3) the company must hire the appropriate professional staff, and its senior management staff must possess the proper professional qualifications and have at least three years' experience working in the financial leasing industry.

Foreign-invested financial leasing companies may engage in the following business: (1) financial leasing business; (2) leasing business; (3) the purchase of lease assets inside and outside China; (4) the sale of the residual value of lease properties and the safeguarding of lease assets; (5) lease transaction consulting and assurance services; and (6) other services approved by MOC. "Financial leasing business" is defined as the lessor agreeing to purchase the relevant leased asset from the seller based on the seller and leased item selected by the lessee and then providing the leased item to the lessee for its use and collecting a lease fee from the lessee.

The foreign-invested financial leasing company may develop its financial leasing business through direct leasing, sub-leasing, after-sales lease back, leveraged leasing, entrusted leasing, joint leasing, etc. Assets which are permitted to be leased include (1) production equipment, communications equipment, medical equipment, scientific research equipment, inspection and testing equipment, engineering machinery and equipment, office equipment and various other types of moveable assets; (2) airplanes, automobiles and ships, and various types of transportation equipment; and (3) the accompanying software, technology and intangible assets related to the above moveable assets and transportation equipment, with the exception that the value of the attached intangible asset may not exceed half of the value of the moveable asset or transportation equipment to which it belongs.

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Risk assets of the foreign-invested financial leasing company generally may not exceed ten times the total value of the company's assets at the end of each fiscal year. Furthermore, risk assets are determined by total residual value based on the enterprise's total assets minus cash, bank deposits, Chinese government bonds and entrusted leased assets, The *Measures for the Administration of Foreign-Invested Leasing Business* also provides that a foreign-invested leasing company shall submit a report to MOC on business operating conditions along with audited financial statements for the preceding year before March 31 of each year. If leased assets imported by the foreign-invested financial leasing company in accordance with the lessee's selection involve quotas, licensing or other special matters administered under state policy, the lessor or the financial leasing company shall carry out application formalities in accordance with the relevant regulations. With respect to foreign-invested financial leasing companies organized pursuant to the governing laws and regulations, investors shall submit all application materials to the provincial department of the MOC at the place where the company is located. If the MOC decides to approve the application, it shall issue a foreign-invested enterprise approval certificate. According to the *Decision on the Fifth Batch of Administrative Examination and Approval Matters to Be Cancelled or Delegated to Subordinate Authorities* promulgated and implemented on July 4, 2010, an application for the approval the establishment or modification of a foreign-invested enterprise engaged in the financial leasing business which has a total investment of USD300 million or less can be submitted to a provincial level government agency for approval and does not need to be submitted to a state level government agency for approval.

PRC LAWS AND REGULATIONS RELATED TO THE MICRO-CREDIT INDUSTRY

Guiding Opinions of the China Banking Regulatory Commission and the People's Bank of China on Pilot Programs for Micro-Credit Companies

The *Guiding Opinions* provide guidelines for pilot programs for micro-credit companies and stipulate provisions for the registration, establishment, source of capital, and use of capital by said companies and the regulation policy to which they are subject.

According to the *Guiding Opinions*:

- (1) When establishing a micro-credit company, an official application must be filed with the regulatory authorities at the provincial level; after the application is approved, the company must comply with registration formalities and obtain all necessary business licenses, approval documents and certification;
- (2) A limited liability company's registered capital may be no less than RMB5 million, A joint stock limited company's registered capital may not be less than RMB10 million. Shares of stock held in the company by a single natural person, an enterprise entity, or any other social organization and its affiliates may not exceed 10% of the total registered capital of the micro-credit company;

REGULATORY OVERVIEW

- (3) The primary source of a micro-credit company's funds shall be capital fund paid by shareholders, donated funds, and financed capital originating from no more than two financial institutions in the banking industry. Micro-Credit companies shall submit to public scrutiny and may not engage in any form of illegal fund-raising;
- (4) Micro-Credit companies shall obtain funding from financial institutions in the banking industry within the scope permitted under the laws and regulations; such funding may not exceed 50% of the micro-credit company's net capital;
- (5) The balance on a loan to the same borrower may not exceed 5% of the micro-credit company's net capital;
- (6) The micro-credit company shall carry out its operations based on the principle of marketisation, and upper limits on loan interest rates shall be lifted. However, the loan interest rate may not exceed the upper limit set by the judicial authorities. The lower limit on loan interest rates is 0.9 times the loan benchmark interest rate announced by the PBOC. The specific float range shall be independently determined according to market principles;
- (7) Natural persons, enterprise entities, and other social organizations who make a capital contribution to and establish the micro-credit company and natural persons who intend to serve as the directors, supervisors and senior management staff of the micro-credit company shall not have any criminal record or bad credit record;
- (8) The micro-credit company shall establish an asset classification system and a loan loss provision system on a prudent model in accordance with the relevant regulations. The micro-credit company shall accurately classify assets, accrue sufficient reserves for bad loans, and ensure that asset loss reserve adequacy is consistently maintained at 100% or more to fully cover all risks;
- (9) The micro-credit company shall establish an asset classification system and a loan loss provision system on a prudent model in accordance with the relevant regulations. The micro-credit company shall accurately classify assets, accrue sufficient reserves for bad loans, and ensure that asset loss reserve adequacy is consistently maintained at 100% (one hundred percent) or more to fully cover all risks; and
- (10) The micro-credit company shall strengthen its internal controls and shall establish a sound corporate governance structure and credit management system.

According to the *Opinion of the State Council on Further Supporting the Healthy Development of the Micro-Credit Industry*, promulgated and implemented by the State Council on April 19, 2012, the restriction on the percentage of equity that a single investor may hold in the micro-credit company may be lifted somewhat to a reasonable extent.

Implementing Measures for the Launching in Shanghai of Pilot Programs for Micro-Credit Companies

Shanghai established a taskforce to promote pilot programs for micro-credit companies. led by the leadership of the Shanghai Municipal Government. The membership of this task force to promote the said pilot programs included the Office of Financial Services of the Shanghai Municipal Government, (“**Shanghai Financial Services Office**”), the Shanghai Branch of the People’s Bank of China, the Shanghai Branch of the China Banking Regulatory Commission, Shanghai Administration for Industry and Commerce (“**Shanghai AIC**”), Shanghai Municipal Agricultural Commission, Shanghai Municipal Economic Commission, Shanghai Municipal Finance Bureau, Shanghai Municipal Public Security Bureau, and the Office of Legislative Affairs of the Shanghai People’s Government. Shanghai Financial Services Office was the competent department in charge of the management of the pilot programs of Shanghai Municipality for micro-credit companies. In addition to carrying out the day to day work of the said task force, the principal duties of Shanghai Financial Services Office included (1) accepting district level (county level) applications for admittance into the program; (2) reviewing applications for admittance into the micro-credit company pilot program and other such matters; (3) evaluating the annual classification of micro-credit companies; and (4) urging district (county) governments and their relevant departments to duly perform the day to day oversight and administration of micro-credit companies and the handling of risks related thereto.

Several Opinions on Further Promoting the Development of Micro-Credit Companies in Shanghai (*Hu Jin Rong Ban* [2014] No. 85)

The *Opinions* were promulgated by Shanghai Financial Services Office and Shanghai AIC on June 5, 2014 and implemented on August 1, 2014, and shall remain in effect until July 31, 2019. The *Opinions* set forth requirements in the following four areas: (1) to suitably adjust the conditions for market entry and continue the optimization of layout structure; (2) to gradually broaden financing channels and promote innovative development in an orderly manner; (3) to enlarge the scope of support and guidance to create a favorable environment for development; and (4) to strengthen in-process and after-process regulation and promote the healthy development of the industry. According to the *Opinions*, (1) actual paid-in registered capital for newly established micro-credit companies should not be less than RMB200 million and the micro-credit company should have no fewer than three founders who have no affiliated relations. The combined equity in the company held by a single principal founder and its affiliates shall not exceed 70% of the equity in the company; (2) continue to steadfastly serve the three agricultural groups (agricultural villages, agricultural industry, and farmers) and small and micro businesses; conduct business in compliance with the laws and regulations and maintain excellent risk management controls; micro-credit companies where the subject has a good credit rating and a good compliance rating from the competent authorities may obtain financing from financial institutions in the banking industry and issue debt financing instruments such as private placement bonds. With respect to debt financing methods such as debt swapping which are used between micro-credit companies in Shanghai, inter-company financing funds for issuing loans may not exceed 100% of the net assets.

REGULATORY OVERVIEW

CHINESE LAWS RELATED TO LABOR AND SOCIAL SECURITY

According to the *Labor Law of the People's Republic of China* promulgated by the Standing Committee of the National People's Congress on July 5, 1994, implemented on January 1, 1995, and amended on August 27, 2009, and the *Labor Contract Law of the People's Republic of China* promulgated on June 29, 2007, implemented on January 1, 2008, and further amended on December 28, 2012, a written labor contract shall be entered into between an entity and an employee when they establish a labor relationship. A labor contract maybe rescinded through the payment of economic compensation or in accordance with the relevant laws.

According to the *Social Insurance Law of the People's Republic of China*, promulgated by the Standing Committee of the National People's Congress on October 28, 2010 and implemented on July 1, 2011, employees shall be covered under basic old age pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance. The fees for basic old age pension insurance, basic medical insurance, and basic unemployment insurance shall be jointly paid by the employer and the employee, and the fees for work-related injury insurance and maternity insurance shall be solely paid by the employer.

According to the *Measures for the Administration of the Housing Public Debt Fund*, promulgated and implemented by the State Council on April 3, 1999, and later amended on March 24, 2002, enterprises in mainland China shall go to the Housing Public Debt Fund Administration Center to pay a deposit and register for the Housing Public Debt Fund and shall open a dedicated account for the Housing Public Debt Fund at an entrusted bank. Every Chinese enterprise and its current staff which it employs must make payments to the Housing Public Debt Fund. The ratio for deposits paid into the Fund shall not be less than 5% of the average monthly wages of the employee during the preceding year.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Establishment of our Company and Corporate Development

On January 1, 1992, we were established as a joint stock limited liability company under the name of Shanghai Pudong Dazhong Taxi Co., Ltd.* (上海浦東大眾出租汽車股份有限公司) by Shanghai Dazhong Taxi Company* (上海市大眾出租汽車公司), Shanghai Coalgas Company* (上海市煤氣公司), Bank of Communications, Shanghai Pudong Branch* (交通銀行上海浦東分行) and Shanghai Shenhua Electrician Union Company* (上海申華電工聯合公司) as our promoters. Upon our establishment, we had a registered share capital of RMB14.0 million and we were mainly engaged in taxi operation and other public transportation related business.

Following a series of placings and share transfers from January 1992 to May 1997, we further increased our registered share capital to RMB258,967,800. In May 1997, Shanghai Dazhong Taxi Company* (上海市大眾出租汽車公司) transferred 26 million shares, representing 20.08% of the registered share capital of our Company to Shanghai Dazhong Business Management at a consideration of RMB111.8 million. Upon the completion of the share transfer, Shanghai Dazhong Business Management became the largest shareholder of our Company. Shanghai Dazhong Business Management is a company incorporated in the PRC with limited liability and its principal business is investment holdings. Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) (the “**Employee Share Ownership Committee**”) is the ultimate controlling shareholder of Shanghai Dazhong Business Management and owns 90% equity interest of Shanghai Dazhong Business Management. The remaining 10% of the equity interest of Shanghai Dazhong Business Management is owned by three individuals, who are Independent Third Parties. The Employee Share Ownership Committee is composed of individual members including (1) the employees of Shanghai Dazhong Business Management; (2) the employees of our Group; and (3) the employees of Dazhong Transportation Group. As of December 31, 2015, there were 1,783 individual members in the Employee Share Ownership Committee, among which 24 were employees of our Group.

Following a series of placings, conversion of capital reserve to our registered share capital and share transfers from May 1997 to June 2007, we further increased our registered share capital to RMB1,246,113,472. In April 2007, pursuant to SASAC’S approval, Shanghai Municipal Assets Management and Development Co., Ltd.* (上海市政資產經營發展有限公司) (“**Shanghai Municipal Assets Management and Development**”), our then shareholder, transferred its 75,219,625 shares, representing 8.15% of the then registered share capital of our Company to Shanghai Gas Group. Upon completion of the share transfer, Shanghai Gas Group became our second largest shareholder. Shanghai Gas Group is a company with limited liability incorporated in the PRC and its principal business is gas supply and gas infrastructure construction.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Following a series of placings and conversion of capital reserve to our registered share capital since June 2007, we further increased our registered share capital to RMB2,467,304,675 as of the Latest Practicable Date.

In August 1999, we disposed of our public transportation business to Shanghai Dazhong Taxi Co., Ltd* (上海大眾出租汽車股份有限公司) (now known as Dazhong Transportation Group) and we subscribed for approximately 24.74% of its then registered share capital. For details, please refer to “History, Development and Corporate Structure — Strategic Historical Acquisitions — Subscription of 24.74% equity interests in Dazhong Transportation Group” below. In September 2001, we acquired a 50% equity interest in Shanghai Dazhong Gas from Shanghai Municipal Assets Management and Development, an Independent Third Party and entered into the public utility business. For details, please refer to “— History and Development — Strategic Historical Acquisitions — Acquisition of Shanghai Dazhong Gas” below. We then changed our name to Shanghai Dazhong Public Utilities (Group) Co., Ltd.* (上海大眾公用事業(集團)股份有限公司) in May 2003.

Since March 4, 1993, our A Shares have been listed on the Shanghai Stock Exchange under stock code “600635”. For details, please refer to “— History and Development — Listing on the Shanghai Stock Exchange and Reasons for the Listing” below. We were subsequently admitted to SSE 180 Index (上證180指數樣本股) in July 2002, SSE 50 Dividend Index (上證紅利指數50隻樣本股) in December 2004 and CSI 300 Index (滬深300指數樣本股) in July 2005.

Our Milestones

The following table sets forth major events and milestones in our development:

Year	Milestones/Events
1992	We were established as a joint stock limited company in January.
1993	Our A Shares were listed on the Shanghai Stock Exchange and trading of our A Shares on the Shanghai Stock Exchange commenced on March 4, 1993 under stock code “600635”.
1999	We subscribed for 140 million shares of Shanghai Dazhong Taxi Co., Ltd* (上海大眾出租汽車股份有限公司) (now known as Dazhong Transportation Group), representing approximately 24.74% of its then registered share capital. Upon completion of this share subscription, we changed our name to Shanghai Dazhong Enterprises of Science and Technology Ltd.* (上海大眾科技創業(集團)股份有限公司) in August. For details, please see “— History and Development — Strategic Historical Acquisitions — Subscription of 24.74% equity interests in Dazhong Transportation Group” below.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Year	Milestones/Events
2001	We acquired a 50% equity interest in Shanghai Dazhong Gas from Shanghai Municipal Assets Management and Development in September and entered into the public utility business.
2002	We made an equity investment in Shenzhen Capital Group in November and became the then second largest shareholder of Shenzhen Capital Group.
2003	<ul style="list-style-type: none"> • We changed our name to Shanghai Dazhong Public Utilities (Group) Co., Ltd.* (上海大眾公用事業(集團)股份有限公司) in May. • We commenced our wastewater treatment plant in Xiaoshan District, Hangzhou City, Zhejiang Province in September pursuant to a BT arrangement between us and the local government. • Our subsidiary, Shanghai Dazhong Gas Investment entered into a joint venture agreement with Nantong Gas General to set up Nantong Dazhong Gas and became its shareholder holding 50% equity interest since then. • We made an investment of RMB948 million in Xiangyin Road River-crossing Tunnel (翔殷路越江隧道) in Shanghai, a major municipal construction project, in November.
2005	<ul style="list-style-type: none"> • We acquired Jiading wastewater treatment plant in December through a public bidding process arranged by Jiading District Water Authority (嘉定水務局). For details, please refer to “— History and Development — Strategic Historical Acquisitions — Acquisition of Jiading Wastewater Treatment Plant” below.
2006	We completed an equity division reform (股權分置改革) in April.
2008	<ul style="list-style-type: none"> • We were awarded the golden prize for municipal construction in Xiangyin Road River-crossing Tunnel (翔殷路越江隧道市政建設金獎) by Shanghai Municipal & Highway Engineering Trade Association (上海市市政公路工程行業協會) in January. • We were awarded the tenth (year of 2007) China Listed Company Golden Bull Award Top 100 Shareholder Return (第十屆(2007年度)中國上市公司金牛獎股東回報百強) by China Securities Newspaper (中國證券報社) in June.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Year	Milestones/Events
2010	<ul style="list-style-type: none"> • Shanghai Dazhong Environment acquired a 70% equity interest in Xuzhou Dazhong Yuanquan Environment Industry Co., Ltd.* (徐州大眾源泉環境產業有限公司) (now known as Jiangsu Dazhong Water) in January. For details, please refer to “— History and Development — Strategic Historical Acquisitions — Acquisition of Jiangsu Dazhong Water” below in this section. • We were awarded Top 100 Shanghai Enterprises (上海企業100強) and Top 50 Shanghai Service Enterprises (上海服務企業50強) by Shanghai Enterprises Association (上海市企業聯合會) and Shanghai Entrepreneur Association (上海市企業家協會), respectively, in October.
2011	We were elected as vice president enterprise (副會長單位) of the first committee of Shanghai Listed Company Association (上海上市公司協會) and our Chairman, Mr. Yang Guoping (楊國平) was elected as vice president (副會長) of such committee in May.
2012	<ul style="list-style-type: none"> • We issued corporate bonds (the “Corporate Bonds”) of RMB1.6 billion with a term of six years in January. • We were elected as a member of the first standing committee of China Listed Company Association (中國上市公司協會) in February.
2013	We established Minhang Dazhong Micro-credit in October.
2014	<ul style="list-style-type: none"> • We were awarded outstanding contributor (突出貢獻獎) for Project Hope (希望工程) by Project Hope 20th Year Memorial Awards Ceremony (希望工程20周年紀念表彰大會) in March. • We established Shanghai Dazhong Financial Leasing in September.
2015	<ul style="list-style-type: none"> • We were awarded 2015 Shanghai Top 100 Enterprises (2015上海企業100強), 2015 Shanghai Top 100 Private Enterprises (2015上海民營企業100強) and 2015 Shanghai Top 50 Private Service Enterprises (2015上海民營服務業企業50強) in September.
2016	<ul style="list-style-type: none"> • We were awarded 2016 Shanghai pioneer worker (2016年上海市工人先鋒號) by the Shanghai Federation of Trade Unions (上海市總工會) in April.

Listing on the Shanghai Stock Exchange and Reasons for the Listing

As approved by the PBOC, our Company completed its initial public offering of 14 million A Shares at an offer price of RMB35.00 per A Share under the A Share Offering, and our A Shares have been listed on the Shanghai Stock Exchange under stock code “600635” since March 4, 1993. Following the completion of the A Share Offering, our Company’s registered capital was increased to RMB14 million.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

The shareholding structure of our Company immediately after the A Shares Offering was as follows:

	Type of Shares	Number of Shares held	Approximate % of Shareholding
Shanghai Dazhong Taxi Company* (上海市大眾出租汽車公司)	A Share	5,000,000	35.72
Shanghai Coalgas Company* (上海市煤氣公司)	A Share	1,000,000	7.14
Bank of Communications, Shanghai Pudong Branch* (交通銀行上海浦東分行)	A Share	1,000,000	7.14
Shanghai Shenhua Industry Co., Ltd.* (上海申華實業股份有限公司)	A Share	1,000,000	7.14
Other public shareholders of A Shares	A Share	6,000,000	42.86
Total		14,000,000	100

During the Track Record Period and up to the Latest Practicable Date, our Company had not received any notice from the Shanghai Stock Exchange alleging any PRC regulatory non-compliance incidents on the part of our Company. Our Directors believe that from the date our A Shares were listed on the Shanghai Stock Exchange, our Company had been operating in compliance with applicable rules of CSRC and Shanghai Stock Exchange in all material aspects.

Our Company is seeking a dual primary listing on the Hong Kong Stock Exchange in order to utilize the overseas financing platform to enhance our competitive strengths, satisfy our capital needs for business development and expansion and optimize our capital structure.

Strategic Historical Acquisitions

Subscription of 24.74% equity interests in Dazhong Transportation Group

In August 1999, our Company subscribed for 140 million shares of Shanghai Dazhong Taxi Co., Ltd.* (上海大眾出租汽車股份有限公司) (now known as Dazhong Transportation Group) at a subscription price of RMB3.32 per share, representing 24.74% of its then total registered share capital, for a total consideration of RMB464.8 million. The consideration was partially settled in cash of RMB37.07 million and partially settled by transfer of our (1) 991 vehicles; (2) 1,000 vehicle licenses; (3) 51% equity interests in Shanghai Pudong Dazhong Public Transportation Co., Ltd.* (上海浦東大眾公共交通有限責任公司); and (4) 10% equity interests in Shanghai Traffic Dazhong Passenger Transportation Co., Ltd.* (上海交通大眾客運有限責任公司). The consideration was determined based on an asset valuation conducted by a professional valuer.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

As a result of the subscription, we became the then largest shareholder of Dazhong Transportation Group. As of the Latest Practicable Date, our Company and our subsidiaries, in total held 25.73% of the registered share capital of Dazhong Transportation Group.

Acquisition of Shanghai Dazhong Gas

In response to the Shanghai government's invitation, on September 18, 2001, we entered into a property transaction contract (產權交易合同) with Shanghai Municipal Assets Management and Development, an Independent Third Party at the time, pursuant to which we acquired a 50% equity interest in South Shanghai Gas Co., Ltd.* (上海燃氣市南銷售有限公司) (which was subsequently re-named as Shanghai Dazhong Gas) for a consideration of RMB400 million. The consideration was determined with reference to an asset valuation conducted by a professional valuer and was settled in cash. The invitation was part of Shanghai government's initiative to reform the gas supply industry in Shanghai by introducing market competition to the industry, which was traditionally monopolized by state-owned enterprises. We were selected primarily due to our management's substantial experience in the coal gas and natural gas industry as well as in successfully managing the internal control and business operations of a publicly listed company. The goal of such invitation was (i) for us to acquire control over various aspects of the management and operation of Shanghai Dazhong Gas; and (ii) for Shanghai Municipal Assets Management and Development to maintain a supervisory role as a state-owned enterprise in Shanghai Dazhong Gas.

Acquisition of Jiading Wastewater Treatment Plant

On December 27, 2005, we entered into an asset purchase agreement with Shanghai Jiading Xincheng Wastewater Treatment Plant* (上海嘉定新城污水處理廠), an Independent Third Party, pursuant to which we acquired the whole asset of Phase I of Water Purification No. 2 Plant (水質淨化二廠) (now known as phase I of the Jiading wastewater treatment plant) for a consideration of RMB122 million through a public bidding process arranged by Jiading District Water Authority. The consideration was determined with reference to an asset valuation conducted by a professional valuer and was settled in cash in March 2006.

Acquisition of Jiangsu Dazhong Water

On January 25, 2010, we, through our subsidiary Shanghai Dazhong Environment, acquired 25.29%, 0.65%, 0.65%, 19.06%, 10.29% and 14.06% equity interests in Xuzhou Dazhong Fountainhead Environment Industry Co., Ltd.* (徐州大眾源泉環境產業有限公司) (currently known as Jiangsu Dazhong Water) from Mr. Zhou Yeming (周業明), Mr. Men Baoliang (門保良), Mr. Liu Shulun (劉樹倫), Mr. Wang Jian (王健), Mr. Wang Lu (王璐) and Mr. Zhou Ruyin (周如銀) for consideration of RMB33,383,700, RMB863,400, RMB863,400, RMB25,152,900, RMB13,583,700 and RMB18,552,900, respectively. The consideration was determined with reference to an asset valuation conducted by a professional valuer and was settled in cash in May 2010. Mr. Zhou Yeming (周業明), Mr. Men Baoliang (門保良), Mr. Liu Shulun (劉樹倫), Mr. Wang Jian (王健), Mr. Wang Lu (王璐) and Mr. Zhou Ruyin (周如銀) are all Independent Third

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Parties. Upon completion of the share transfer, Jiangsu Dazhong Water was owned as to 70% by Shanghai Dazhong Environment, 15% by Mr. Wang Lu (王璐), 10% by Mr. Zhou Ruyin (周如銀) and 5% by Mr. Wang Jian (王健).

We, through our subsidiary Shanghai Dazhong Environment, further acquired a 10% equity interest in Jiangsu Dazhong Water from Mr. Zhou Ruyin (周如銀) for a consideration of RMB18,448,000 in May 2012. The consideration was determined on the basis of the Articles of Association of Jiangsu Dazhong Water and agreement made in the share transfer agreement between Mr. Zhou Ruyin (周如銀) and Shanghai Dazhong Environment in January 2010. In the previous share acquisition as set out above and was settled in cash in June 2012. Upon completion of the share transfer, Jiangsu Dazhong Water was owned as to 80% by Shanghai Dazhong Environment, 15% by Mr. Wang Lu (王璐) and 5% by Mr. Wang Jian (王健).

Suchuang Acquisitions

Dazhong Hong Kong International, our wholly-owned subsidiary, acquired a total of 4,188,000 shares of Suchuang Gas in the secondary market in 2015, representing around 0.52% of the issued share capital of Suchuang Gas as of December 31, 2015. Dazhong Hong Kong International subsequently entered into the following acquisitions (together, the “**Suchuang Acquisitions**”):

- (i) On May 10, 2016, Dazhong Hong Kong International acquired 37,258,000 shares of Suchuang Gas, representing approximately 4.5% of Suchuang Gas’ issued share capital as of May 10, 2016, from a minority shareholder of Suchuang Gas which was an Independent Third Party, for a total consideration of around HK\$89.0 million. Immediately after the acquisition, Dazhong Hong Kong International held approximately 5.02% of the issued share capital of Suchuang Gas as of May 10, 2016.
- (ii) On May 27, 2016, Dazhong Hong Kong International entered into a subscription agreement with Suchuang Gas pursuant to which Dazhong Hong Kong International conditionally agreed to subscribe for 32,288,000 new shares in Suchuang Gas for a total consideration of approximately HK\$82.3 million (the “**May 2016 Subscription**”). Completion of the May 2016 Subscription is conditional on, among other things, (a) the approval for listing of the newly issued shares by the Listing Committee of the Hong Kong Stock Exchange and (b) the approval by independent shareholders of Suchuang Gas. Completion of the May 2016 Subscription took place on June 29, 2016.
- (iii) Simultaneously with (ii) above, Dazhong Hong Kong International also entered into a sale and purchase agreement with the controlling shareholder of Suchuang Gas on May 27, 2016 pursuant to which the controlling shareholder conditionally agreed to sell and Dazhong Hong Kong International conditionally agreed to purchase 96,800,000 shares in Suchuang Gas for a consideration of approximately HK\$246.8 million. Completion of the purchase of 96,800,000 shares in Suchuang Gas took place on June 29, 2016.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Upon the completion of the Suchuang Acquisitions, the Company held, through Dazhong Hong Kong International, 19.76% of the enlarged issued share capital of Suchuang Gas. Suchuang Gas is accounted for as an associated company in the Group's consolidated financial statements after completion of the Suchuang Acquisitions.

Suchuang Gas is a piped natural gas supplier in Jiangsu Province, with an exclusive right to sell and deliver piped natural gas to users in its operating area. The Directors believe that the investment in Suchuang Gas will provide strategic value to the Company and will create more opportunities for further cooperation between the parties.

Major Historical Disposals

Set out below is a table summarizing the major historical disposals completed by our Group:

Date and Description of Transaction	Parties	Amount and Basis of Consideration	How and When Consideration was Settled	Reason for the Transaction
In August 2000, our Company disposed of its entire equity interest in Wuxi Dazhong Taxi Co., Ltd.* (無錫大眾出租汽車有限公司)	<ul style="list-style-type: none"> • Vendor: our Company • Purchaser: Wuxi Dazhong Transportation Co., Ltd.* (無錫大眾交通有限公司), a subsidiary of Dazhong Transportation Group 	RMB38,430,550.20 The consideration was determined on the basis of an asset valuation by a professional valuer.	Settled in cash in December 2000	Business delineation with Dazhong Transportation Group
In September 2006, our Company disposed of its 30% equity interest in Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司) ("Shanghai Hongkou Dazhong Taxi")	<ul style="list-style-type: none"> • Vendor: our Company • Purchaser: Dazhong Transportation Group 	RMB145,333,231.99 The consideration was determined on the basis of an asset valuation by a professional valuer.	Settled in cash in November 2006	Business delineation with Dazhong Transportation Group
In June 2007, our Company disposed of its 39.85% equity interest in Shanghai Hongkou Dazhong Taxi	<ul style="list-style-type: none"> • Vendor: our Company • Purchaser: Dazhong Transportation Group 	RMB188,933,477.96 The consideration was determined on the basis of an asset valuation by a professional valuer.	Settled in cash in June 2007	Business delineation with Dazhong Transportation Group
In September 2009, Shanghai Dazhong Gas Investment, our subsidiary, disposed of its 88% equity interest in Shanghai Chongming Dazhong Gas Co., Ltd.* (上海崇明大眾燃氣有限公司)	<ul style="list-style-type: none"> • Vendor: Shanghai Dazhong Gas Investment, our subsidiary • Purchaser: Shanghai Gas Group, our shareholder 	RMB79,902,916 The consideration was determined on the basis of an asset valuation by a professional valuer.	Settled in cash in November 2009	In accordance with local government's planning

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Date and Description of Transaction	Parties	Amount and Basis of Consideration	How and When Consideration was Settled	Reason for the Transaction
In December 2009, Shanghai Dazhong Gas, our subsidiary, disposed of its 49% equity interest in Nanchang Gas Co., Ltd.* (南昌燃氣有限公司) (“Nanchang Gas”)	<ul style="list-style-type: none"> • Vendor: Shanghai Dazhong Gas, our subsidiary • Purchaser: China Resources Gas (Group) Co., Ltd.* (華潤燃氣(集團)有限公司), an Independent Third Party 	<p>RMB698 million</p> <p>The consideration was determined on the basis of an asset valuation by a professional valuer.</p>	HKD792.98 million was settled in cash in June 2011	Business arrangement for our natural gas business

Our PRC legal advisers, Jin Mao P.R.C. Lawyers, confirms that (i) all necessary approvals from the relevant authorities for the above acquisitions and disposals had been obtained as of the Latest Practicable Date, and (ii) the above acquisitions and disposals had been legally completed.

Acquisition after June 30, 2016

Dazhong Transportation Group Acquisitions

FCEEL, our indirectly wholly-owned subsidiary had acquired a total of 4,418,061 B shares of Dazhong Transportation Group in the secondary market from June 30, 2016 to the Latest Practicable Date, representing approximately 0.19% of the registered capital of Dazhong Transportation Group as of the Latest Practicable Date. For the financial information of Dazhong Transportation Group for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, please refer to note 26(b) of the accountant’s report in Appendix IA to this prospectus.

For details of the business of and our relationship with Dazhong Transportation Group, please refer to the section “Business — Our Competitive Strengths — Diversified income stream through a prudent investment portfolio with solid historical performance of sustained value growth and recurring dividend income — Long-term strategic investment in Dazhong Transportation Group”.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Disposals after June 30, 2016

Disposals of 51% Equity Interests in Pizhou Fountainhead Water

On July 14, 2016, Jiangsu Dazhong Water, our subsidiary, entered into an equity interests transfer agreement (the “**Pizhou Equity Interests Transfer Agreement**”) with Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Zhang Wei (張偉) (collectively, the “**Pizhou Management**”). Mr. Li Fanqun (李凡群) is the standing vice general manager (常務副總經理) of Jiangsu Dazhong Water. Ms. Lv Xuanhui (呂宣惠) is the vice general manager (副總經理) of Jiangsu Dazhong Water. Mr. Ge Yanwu (葛豔武) is the financial controller (財務總監) of Jiangsu Dazhong Water. Mr. Zhang Wei (張偉) is the manager (經理) of Pizhou Fountainhead Water. According to the Pizhou Equity Interests Transfer Agreement, to further incentivize the management of Pizhou Fountainhead Water to improve operational efficiency, Jiangsu Dazhong Water transferred its 15%, 12%, 12% and 12% equity interests in Pizhou Fountainhead Water (collectively, the “**Pizhou Target Equity Interests**”) to Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Zhang Wei (張偉) for considerations of RMB4,267,770.72, RMB3,414,216.57, RMB3,414,216.57 and RMB3,414,216.57, respectively. The considerations were determined with reference to an audit report issued by a professional valuer and will be settled by installments. The Pizhou Management paid the first instalment of RMB4,836,806.81 in cash on August 16, 2016 and will pay the second instalment of RMB4,836,806.81 and the third instalment of RMB4,836,806.81 by December 31, 2017 and December 31, 2018, respectively. Before the payment of the third instalment by Jiangsu Dazhong Water, the Pizhou Management agreed to charge in favour of Jiangsu Dazhong Water the Pizhou Target Equity Interests. The Pizhou Management agreed not to sell, transfer or otherwise dispose of or create any encumbrance over any of his or her relevant portion of Pizhou Target Equity Interests so long as he or she remains as the management of Jiangsu Dazhong Water or Pizhou Fountainhead Water (as the case may be) and agreed to transfer all of his or her relevant portion of Pizhou Target Equity Interests to Jiangsu Dazhong Water or any third party designated by Jiangsu Dazhong Water when he or she ceases to be a member of the management of Jiangsu Dazhong Water or Pizhou Fountainhead Water (as the case may be). Our PRC legal advisers, Jin Mao P.R.C. Lawyers, confirms that (i) all necessary approvals from the relevant authorities for the above disposals had been obtained as of the Latest Practicable Date, (ii) the relevant registration with the local authority of the State Administration for Industry and Commerce had been completed, and (iii) the above disposals will be completed upon receipt of the third instalment by Jiangsu Dazhong Water. Since the relevant registration with the local authority of the State Administration for Industry and Commerce had been completed, Pizhou Fountainhead Water is held as to 15% by Mr. Li Fanqun (李凡群), 12% by Ms. Lv Xuanhui (呂宣惠), 12% by Mr. Ge Yanwu (葛豔武), 12% by Mr. Zhang Wei (張偉) and 49% by Jiangsu Dazhong Water. After the disposal of 51% equity interests of Pizhou Fountainhead Water, the Company lost the control over the relevant activities of Pizhou Fountainhead Water, and derecognize it as a subsidiary of our Company. The financial results of Pizhou Fountainhead Water will no longer be consolidated in the accounts of our Group.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Disposals of 51% Equity Interests in Xuzhou Fountainhead Sewage

On July 14, 2016, Jiangsu Dazhong Water, our subsidiary, entered into an equity interests transfer agreement (the “**Xuzhou Equity Interests Transfer Agreement**”) with Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Lu Lei (陸雷) (collectively, the “**Xuzhou Management**”). Mr. Lu Lei (陸雷) is the vice manager (副經理) of Xuzhou Fountainhead Sewage. According to the Xuzhou Equity Interests Transfer Agreement, to further incentivize the management of Xuzhou Fountainhead Sewage to improve operational efficiency, Jiangsu Dazhong Water transferred its 15%, 12%, 12% and 12% equity interests in Xuzhou Fountainhead Sewage (collectively, the “**Xuzhou Target Equity Interests**”) to Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Lu Lei (陸雷) for considerations of RMB3,598,752.20, RMB2,879,001.76, RMB2,879,001.76 and RMB2,879,001.76, respectively. The considerations were determined with reference to an audit report issued by a professional valuer and will be settled by installments. The Xuzhou Management paid the first instalment of RMB4,078,585.83 in cash on August 16, 2016 and will pay the second instalment of approximately RMB4,078,585.83 and the third instalment of approximately RMB4,078,585.83 by December 31, 2017 and December 31, 2018, respectively. Before the payment of the third instalment by Jiangsu Dazhong Water, the Xuzhou Management agreed to charge in favour of Jiangsu Dazhong Water the Xuzhou Target Equity Interests. The Xuzhou Management agreed not to sell, transfer or otherwise dispose of or create any encumbrance over any of his or her relevant portion of Xuzhou Target Equity Interests so long as he or she remains as the management of Jiangsu Dazhong Water or Xuzhou Fountainhead Sewage (as the case may be) and agreed to transfer all of his or her relevant portion of Xuzhou Target Equity Interests to Jiangsu Dazhong Water or any third party designated by Jiangsu Dazhong Water when he or she ceases to be a member of the management of Jiangsu Dazhong Water or Xuzhou Fountainhead Sewage (as the case may be). Our PRC legal advisers, Jin Mao P.R.C. Lawyers, confirms that (i) all necessary approvals from the relevant authorities for the above disposals had been obtained as of the Latest Practicable Date, (ii) the relevant registration with the local authority of the State Administration for Industry and Commerce had been completed, and (iii) the above disposals will be completed upon receipt of the third instalment by Jiangsu Dazhong Water. Since the relevant registration with the local authority of the State Administration for Industry and Commerce had been completed, Xuzhou Fountainhead Sewage is held as to 15% by Mr. Li Fanqun (李凡群), 12% by Ms. Lv Xuanhui (呂宣惠), 12% by Mr. Ge Yanwu (葛豔武), 12% by Mr. Lu Lei (陸雷) and 49% by Jiangsu Dazhong Water. After the disposal of 51% equity interests of Xuzhou Fountainhead Sewage, the Company lost the control over the relevant activities of Xuzhou Fountainhead Sewage, and derecognize it as a subsidiary of our Company. The financial results of Xuzhou Fountainhead Sewage will no longer be consolidated in the accounts of our Group.

OUR SUBSIDIARIES

As at the Latest Practicable Date, we had 33 subsidiaries, 13 of which were principal subsidiaries (each a “**Principal Subsidiary**” and together the “**Principal Subsidiaries**”), which had been material to our Group’s business operation and corporate management during the

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Track Record Period. The group structure provides an extensive coverage of our major business in public utilities service and financial services. Details of the 13 Principal Subsidiaries are set out below:

No.	Name of Subsidiaries directly held by our Company	Place of Incorporation	Date of Incorporation	Registered Capital	Principal business activities
<i>Public Utilities</i>					
1.	Jiangsu Dazhong Water	PRC	April 4, 1995	RMB50 million	Wastewater treatment operations
2.	Shanghai Dazhong Gas	PRC	January 3, 2001	RMB800 million	Distribution and sale of piped natural gas
3.	Shanghai Dazhong Environment	PRC	July 14, 2003	RMB252 million	Investment holding
4.	Shanghai Dazhong Municipal Development	PRC	September 15, 2003	RMB120 million	Investments in municipal projects
5.	Shanghai Xiangyin Tunnel Construction	PRC	September 24, 2003	RMB285 million	Road and tunnel operations
6.	Nantong Dazhong Gas	PRC	December 11, 2003	RMB280 million	Distribution and sale of piped natural gas
7.	Shanghai Dazhong Jiading Sewage	PRC	March 17, 2006	RMB200 million	Wastewater treatment operations
<i>Financial services and investment holding</i>					
8.	Shanghai Dazhong Gas Investment	PRC	August 14, 2003	RMB107.1 million	Investment holding
9.	Dazhong Hong Kong International	HK	November 10, 2008	US\$10.5 million ⁽¹⁾	Investment holding
10.	Shanghai Dazhong Capital Equity Investment	PRC	April 22, 2010	RMB500 million	Investment holding
11.	Minhang Dazhong Micro-credit	PRC	November 14, 2013	RMB200 million	Money lending
12.	Shanghai Dazhong Asset Management	PRC	August 8, 2014	RMB500 million	Asset management
13.	Shanghai Dazhong Financial Leasing	PRC	September 19, 2014	RMB500 million	Financial leasing

Note:

(1) The total issued share capital of Dazhong Hong Kong International is US\$10.5 million.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR SHAREHOLDING AND CORPORATE STRUCTURE

The top ten shareholders of our Company as of June 30, 2016 were as follows:

	Type of Shares	Number of Shares held	Approximate % of Shareholding
Shanghai Dazhong Business Management	A Share	495,143,859	20.07
Shanghai Gas Group	A Share	201,062,058	8.15
Central Huijin Asset Management Co., Ltd.* (中央滙金資產管理有限責任公司)	A Share	11,370,700	0.46
Agriculture Bank of China — China Securities 500 Index Fund* (中國農業銀行股份有限公司 — 中證500交易型開放式指數證券投資基金)	A Share	9,297,616	0.38
Ding Xiumin (丁秀敏)	A Share	6,745,000	0.27
Cai Zhishuang (蔡志雙)	A Share	5,800,000	0.24
Wuxi Coach Co., Ltd.* (無錫客運有限公司)	A Share	5,464,800	0.22
PICC Investment Holding Co., Ltd.* (人保投資控股有限公司)	A Share	5,429,745	0.22
Xu Xin (徐新)	A Share	5,093,525	0.21
Bi Bo (畢博)	A Share	5,000,000	0.20

To the best knowledge of our Directors, there was no acting-in-concert arrangement among the above Shareholders as of the Latest Practicable Date.

Shanghai Dazhong Business Management

Shanghai Dazhong Business Management is a limited liability company incorporated in the PRC on March 10, 1995 and owned as to 90% by Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) and 10% by three individual shareholders who are Independent Third Parties. Some of our Directors and Supervisors hold interests in Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會). For details, please refer to “Statutory and General Information — C. Further Information about Our Directors, Supervisors and Substantial Shareholders — Disclosure of interests — Disclosure of our Directors’ and Supervisors’ interests and short positions in the issued shares of our Company and its associated corporations” of this prospectus. The principal business of Shanghai Dazhong Business Management is investment holding. Shanghai Dazhong Business Management has been our largest shareholder since 1997.

Shanghai Gas Group

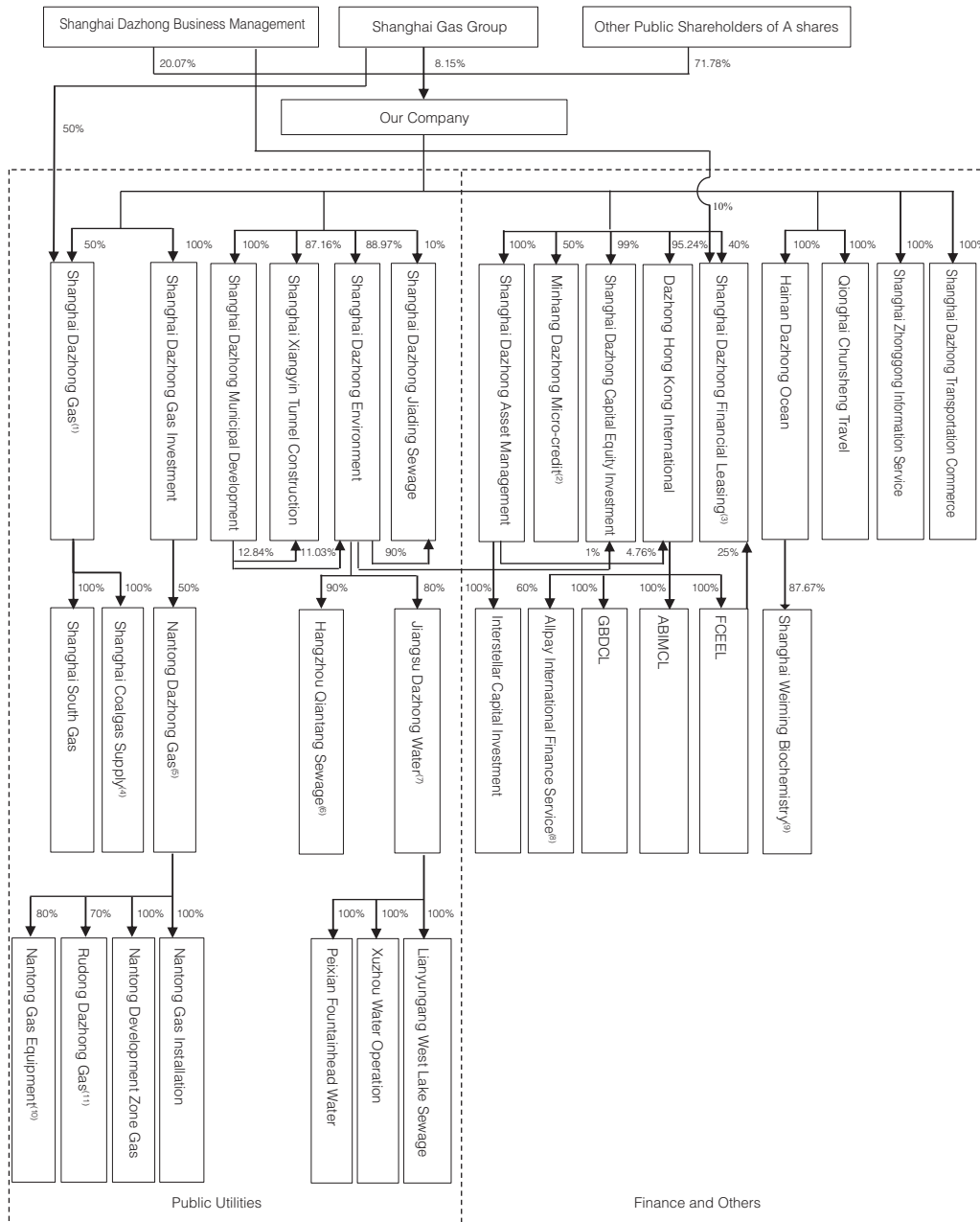
Shanghai Gas Group is a limited liability company incorporated in the PRC on February 12, 2004 and a direct wholly-owned subsidiary of Shenergy (Group) Company Limited* (申能(集團)有限公司). Both Shanghai Gas Group and Shenergy (Group) Company Limited are our connected persons. The principal business of Shanghai Gas Group is gas supply and gas infrastructure construction. Shanghai Gas Group has been our second largest shareholder since 2007.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

For further details of the above shareholders, please refer to “Substantial Shareholders”. During the Track Record Period and up to the Latest Practicable Date, there was no significant change in the shareholding in our Company.

Shareholding Structure Prior to the Global Offering

The following chart sets out our corporate structures as at the Latest Practicable Date:



HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

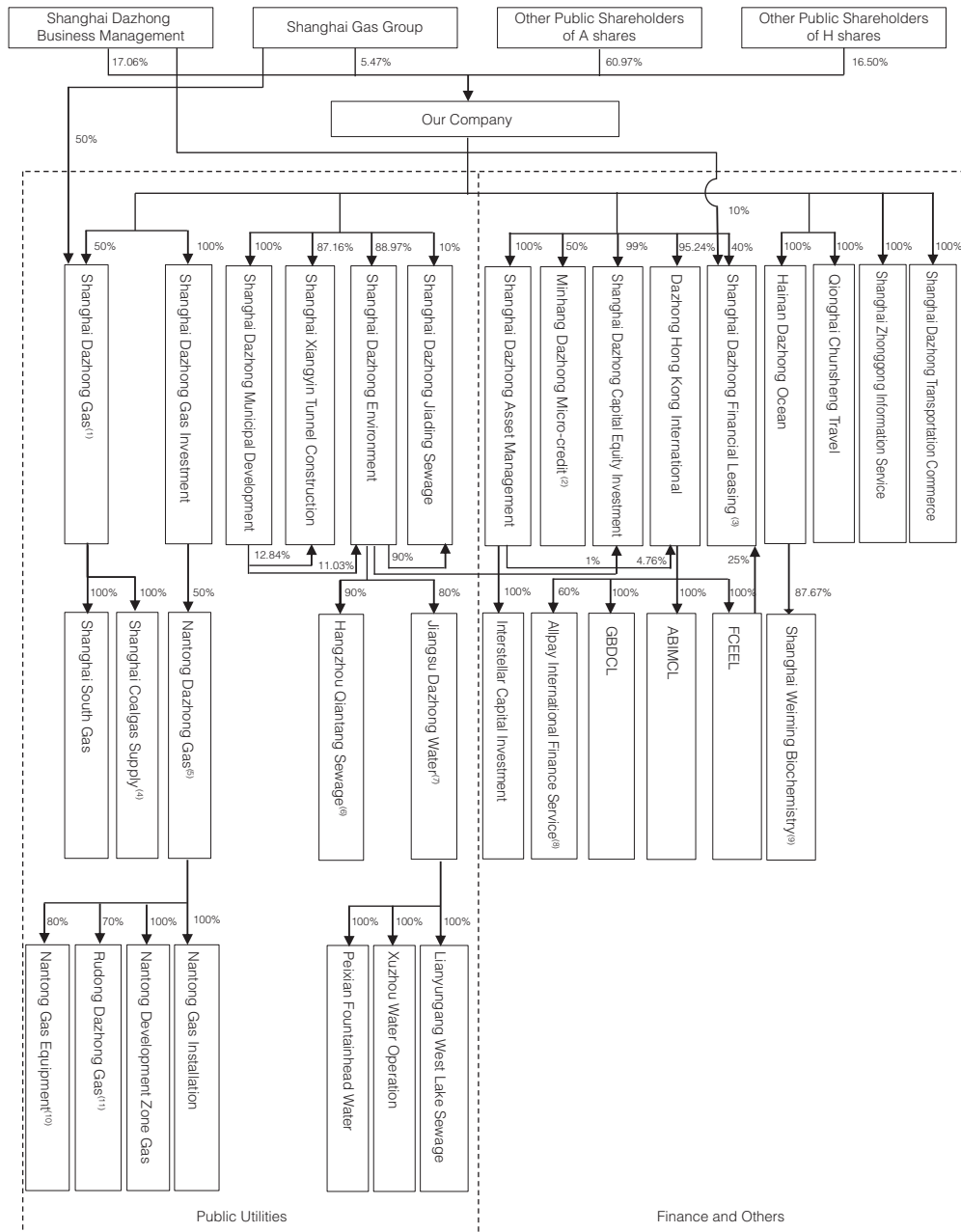
Notes:

- (1) The remaining 50% equity interest in Shanghai Dazhong Gas was held by Shanghai Gas Group, our shareholder.
- (2) The remaining 50% equity interest in Minhang Dazhong Micro-credit was held as to 20% by Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司), a wholly-owned subsidiary of Dazhong Transportation Group, 10% by Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司) (held as to 2.16% by our Company), 10% by Shanghai Dongfulong Technology Co., Ltd.* (上海東富龍科技股份有限公司), an Independent Third Party, and 10% by Shanghai Gumei Asset Operation and Management Co., Ltd.* (上海古美資產經營管理有限公司), an Independent Third Party.
- (3) The remaining 60% equity interest in Shanghai Dazhong Financial Leasing was held as to 25% by FCEEL, our indirect wholly-owned subsidiary, 20% by Dazhong Transportation Group, 10% by Shanghai Dazhong Business Management, our shareholder, and 5% by Shanghai Chengguang Business Information Consultation Co., Ltd.* (上海誠光商務信息諮詢有限公司), an Independent Third Party.
- (4) Shanghai Coalgas Supply is currently under the process of deregistration.
- (5) The remaining 50% equity interest in Nantong Dazhong Gas was held by Nantong Gas General, an Independent Third Party.
- (6) The remaining 10% equity interest in Hangzhou Qiantang Sewage was held by Hangzhou Xiaoshan Sewage Co., Ltd.* (杭州蕭山污水處理有限公司), an Independent Third Party.
- (7) The remaining 20% equity interest of Jiangsu Dazhong Water was held as to 15% by Wang Lu (王聯) and 5% by Wang Jian (王健), both of whom were Independent Third Parties.
- (8) The remaining 40% share capital in Allpay International Finance Service was held by 99 Wuxian Limited* (99 無限有限公司), an Independent Third Party.
- (9) The remaining 12.33% equity interest in Shanghai Weiming Biochemistry was held as to 4.44% by Dazhong Transportation Group, 4% by Shanghai Weiming Biochemistry Co., Ltd. Employee Shareholding Assembly* (上海衛銘生化股份有限公司職工持股會), an Independent Third Party and 3.89% by Shanghai Jinyi Industry Head Office* (上海金翼實業總公司), an Independent Third Party.
- (10) The remaining 20% equity interest in Nantong Gas Equipment was held by its general manager Yang Jun (楊軍).
- (11) The remaining 30% equity interest in Rudong Dazhong Gas was held by Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司), an Independent Third Party.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Immediately Following the Completion of the Global Offering

The following chart sets forth our corporate structure immediately following completion of the Global Offering on the assumption that: (1) the Over-allotment Option is not exercised; and (2) there is no change in shareholding held by each of our existing Shareholders subsequent to the Latest Practicable Date other than the sale of Sale Shares by the Selling Shareholders (see “Share Capital — Reduction of State-owned Shares” for more details).



HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Notes:

- (1) The remaining 50% equity interest in Shanghai Dazhong Gas is held by Shanghai Gas Group, our shareholder.
- (2) The remaining 50% equity interest in Minhang Dazhong Micro-credit is held as to 20% by Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司), a wholly-owned subsidiary of Dazhong Transportation Group, 10% by Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司) (held as to 2.16% by our Company), 10% by Shanghai Dongfulong Technology Co., Ltd.* (上海東富龍科技股份有限公司), an Independent Third Party and 10% by Shanghai Gumei Asset Operation and Management Co., Ltd.* (上海古美資產經營管理有限公司), an Independent Third Party.
- (3) The remaining 60% equity interest in Shanghai Dazhong Financial Leasing is held as to 25% by FCEEL, our indirect wholly-owned subsidiary, 20% by Dazhong Transportation Group, 10% by Shanghai Dazhong Business Management, our shareholder, and 5% by Shanghai Chengguang Business Information Consultation Co., Ltd.* (上海誠光商務信息諮詢有限公司), an Independent Third Party.
- (4) Shanghai Coalgas Supply is currently under the process of deregistration.
- (5) The remaining 50% equity interest in Nantong Dazhong Gas is held by Nantong Gas General* (南通市燃氣總公司), an Independent Third Party.
- (6) The remaining 10% equity interest in Hangzhou Qiantang Sewage is held by Hangzhou Xiaoshan Sewage Co., Ltd.* (杭州蕭山污水處理有限公司), an Independent Third Party.
- (7) The remaining 20% equity interest in Jiangsu Dazhong Water is held as to 15% by Wang Lu (王璐) and 5% by Wang Jian (王健), both of whom are Independent Third Parties.
- (8) The remaining 40% share capital in Allpay International Finance Service is held by 99 Wuxian Limited (99 無限有限公司), an Independent Third Party.
- (9) The remaining 12.33% equity interest in Shanghai Weiming Biochemistry is held as to 4.44% by Dazhong Transportation Group, 4% by Shanghai Weiming Biochemistry Co., Ltd. Employee Shareholding Assembly* (上海衛銘生化股份有限公司職工持股會), an Independent Third Party and 3.89% by Shanghai Jinyi Industry Head Office* (上海金翼實業總公司), an Independent Third Party.
- (10) The remaining 20% equity interest in Nantong Gas Equipment is held by its general manager Yang Jun (楊軍).
- (11) The remaining 30% equity interest in Rudong Dazhong Gas is held by Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司), an Independent Third Party.

OVERVIEW

We are a leading public utility service provider in Shanghai that complements our operations with strategic and financial investments in our associated companies in public utility and other industries, from which we generated a significant portion of our profit during the Track Record Period. The public utility services we provide include piped gas supply, wastewater treatment and public infrastructure projects. We generated revenue from public utility service operations in the amount of RMB3,929.8 million, RMB4,190.3 million, RMB4,566.1 million and RMB2,501.8 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We were the largest of the three suppliers of piped gas in Shanghai Urban Area in terms of length of pipeline under operation in 2015, according to the CIC Report. Our main business operations of public utility services are complemented by our long-term investments, including our strategic investments in public transportation industries through Dazhong Transportation Group and a portfolio of financial investments. We implemented a business strategy that focuses on growth in our public utility service operations and at the same time enhances the value of our Company through selected long-term investments. We recorded a substantial portion of our profits in the form of share of results from associated companies as a result of our strategic and financial investments during the Track Record Period.

As an established and major public utility service provider in the Yangtze River Delta, we generated steady revenue and cash flow from our operations during the Track Record Period. We have been the sole piped gas supplier in the South Puxi Area since 2001, and currently serve approximately 1.8 million end user accounts. We were also a dominant natural gas supplier in Nantong urban area, with an approximately 80% market share in term of natural gas supply volume in 2015 according to the CIC Report and currently serve approximately 354,000 end user accounts. Revenue generated from our piped gas supply operations was RMB3,695.2 million, RMB3,960.6 million, RMB4,359.7 million and RMB2,379.0 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 94.0%, 94.0%, 94.4% and 93.5% of our total revenue during the same periods. We expanded our public utility operations into wastewater treatment in 2003 through a BT arrangement with the local government in Xiaoshan District, Hangzhou City, Zhejiang Province. We operated a total of six wastewater treatment plants in Shanghai and Xuzhou Area, Jiangsu Province through a combination of BOT and TOT arrangements with the local governments as of June 30, 2015, with an aggregate designed treatment capacity of approximately 355,000 m³/day. Revenue generated from our wastewater treatment operations was RMB167.3 million, RMB166.4 million, RMB148.3 million and RMB94.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 4.3%, 4.0%, 3.2% and 3.7% of our total revenue during the same periods. Our public infrastructure projects during the Track Record Period included a river-crossing tunnel and two public roads in Shanghai and Changzhou City under BOT or BT arrangements with local governments. We generated revenue in the amount of RMB67.3 million, RMB63.3 million, RMB58.1 million and RMB28.7 million in 2013, 2014 and 2015 and the six months ended June 30, 2016 from our public infrastructure projects, respectively, representing 1.7%, 1.5%, 1.3% and 1.1% of our total revenue during the same periods.

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Taxi operation was our main business in the early stage of our operations in the 1990s and we continue to participate in public transportation and other related industries through our long-term strategic investment in Dazhong Transportation Group. Dazhong Transportation Group is our associated company and is accounted for under the equity method. Dazhong Transportation Group was the largest urban vehicle transportation service provider in the PRC in 2015 in terms of number of service vehicles owned, according to the CIC Report. Dazhong Transportation Group's main businesses include taxi operation, car rental, logistics and other transportation-related businesses. Dazhong Transportation Group also engages in other businesses such as travel-related business, real estate development and financial services. Share of results attributable to our investment in Dazhong Transportation Group was RMB96.7 million, RMB103.8 million, RMB122.3 million and RMB64.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 26.6%, 24.9%, 21.3% and 15.2% of our profit before tax during the same periods.

In addition to our operations of public utility services, our financial investments enable us to efficiently utilize our capital and enhance the value of our Company. We have implemented a clearly-defined and focused investment principle and rigorous decision-making procedures for both investment and disposal. We make direct equity investments in companies that operate in industries that we are familiar with and also in selected investment platforms, such as Shenzhen Capital Group, Shanghai Hangxin and Shanghai Xingye Venture Capital. These companies are our associated companies and are accounted for under the equity method. We generally hold our investments in associated companies with a view to long-term growth and return. Our principle for investments in available-for-sale financial assets is to focus on private companies in the PRC which have a plan for a public listing in the foreseeable future. Our investment decision-making process involve extensive due diligence and review processes and if necessary, we also engage third-party professionals to assist in the evaluation of target companies. In particular, we are currently the third largest shareholder of Shenzhen Capital Group. According to the CIC Report, Shenzhen Capital Group was the largest venture capital company in China in 2015 in terms of capital under management. Shenzhen Capital Group had a net asset value of RMB12.2 billion as of June 30, 2016. Share of results attributable to our investment in Shenzhen Capital Group was RMB116.9 million, RMB149.5 million, RMB127.4 million and RMB103.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 32.2%, 35.9%, 22.2% and 24.5% of our profit before tax during the same periods. We monitor and evaluate our financial investment portfolio on an on-going basis. In 2013, 2014 and 2015 and the six months ended June 30, 2016, we generated net investment income and gains of RMB44.4 million, RMB163.0 million, RMB72.1 million and RMB106.9 million, respectively, representing 12.2%, 39.1%, 12.6% and 25.4% of our profit before tax during the same periods.

We also entered into the micro-credit business in November 2013 and the financial leasing business in September 2014. We entered into such businesses as a means to explore alternative revenue sources. Revenue generated from our micro-credit operations represented less than 1% of our total revenue in 2014, 2015 and the six months ended June 30, 2016 and the outstanding loan receivables of our micro-credit business as of June 30, 2016 represented

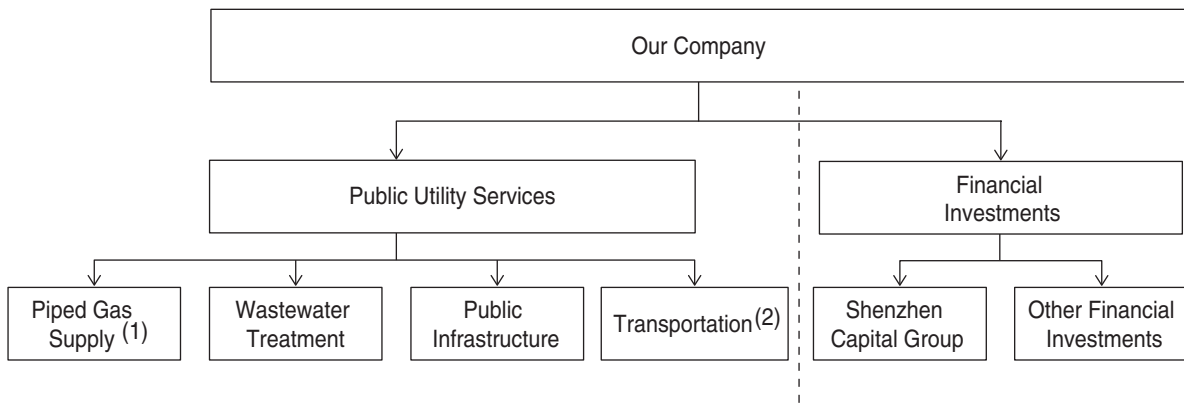
BUSINESS

1.3% of our total asset. Revenue generated from our financial leasing operations represented 0.5% and 1.2% of our total revenue in 2015 and the six months ended June 30, 2016, respectively and the outstanding lease receivables of our financial leasing operations as of June 30, 2016 represented 5.8% of our total asset. As such, the scale of our financial services was relatively insignificant as compared to our operations of public utility services and financial investments, in terms of revenue contribution, asset value and risk exposure.

We had experienced steady growth during the Track Record Period. We generated revenue of RMB3,929.8 million, RMB4,212.6 million, RMB4,616.6 million and RMB2,544.0 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing a CAGR of 8.4% from 2013 to 2015. Our profit after tax was RMB313.4 million, RMB374.3 million, RMB535.7 million and RMB358.8 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing a CAGR of 30.7%, from 2013 to 2015. Net cash generated from operations was RMB532.5 million, RMB890.3 million, RMB355.2 million and RMB462.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

OUR BUSINESS SEGMENTS

Our business is organized based on the principle of “focused public utility operations with supplemental financial investments (公用事業為主，金融創投為輔)”. The diagram below illustrates our main business segments:



Notes:

1. We conduct our piped gas supply operations through Shanghai Dazhong Gas in Shanghai and Nantong Dazhong Gas in Nantong Area. In addition, in May 2016, we made a strategic investment to further grow our piped gas business. We acquired 19.76% of the issued share capital of Suchuang Gas, which is a dominant piped natural gas operator in Taicang, Jiangsu Province. For more details, please refer to the section “— Our Public Utility Service Business — Strategic Investment in Suchuang Gas”.
2. We participate in the transportation segment through our long-term strategic investment in Dazhong Transportation Group, of which we have been the largest shareholder since 1999.

BUSINESS

The table below sets forth our revenue by operational segments for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Public Utility Services										
Piped gas supply	3,695,224	94.0	3,960,609	94.0	4,359,700	94.4	2,478,541	95.1	2,379,022	93.5
Wastewater treatment	167,294	4.3	166,371	4.0	148,256	3.2	83,020	3.2	94,068	3.7
Public infrastructure projects	67,331	1.7	63,289	1.5	58,112	1.3	29,915	1.2	28,687	1.1
	3,929,849	100.0	4,190,269	99.5	4,566,068	98.9	2,591,476	99.5	2,501,777	98.3
Financial Services										
Micro-credit	–	–	22,288	0.5	28,996	0.6	12,844	0.5	10,907	0.5
Financial leasing	–	–	–	–	21,531	0.5	1,023	<0.1	31,341	1.2
Total	3,929,849	100.0	4,212,557	100.0	4,616,595	100.0	2,605,343	100.0	2,544,025	100.0

OUR COMPETITIVE STRENGTHS

Leading integrated public utility operations in Shanghai with a well-established brand name that provides steady operating cash flow and the foundation for business growth and expansion

We are a leading public utility service provider in Shanghai. In 2014, the “Dazhong Utility” (大眾公用) brand was rewarded “Top 500 Most Valuable Brands in China” (中國最有價值品牌500強) by the Brand Watch Magazine. Our chairman, Mr. Yang Guoping, is a renowned entrepreneur in the PRC who has been a leader in the urban public service industries in Shanghai since the early 1990s.

Shanghai has now firmly established itself as an economic hub and driving force of the PRC's economy. Shanghai had a GDP of approximately RMB2,496.5 billion in 2015, which ranked first among all cities in China and second in Asia. As a major public utility service provider in Shanghai with a long-established and prominent brand, we have contributed to, and benefit from, the exponential economic growth of Shanghai in the last three decades. In 1992, we established taxi operations in Shanghai. In 2003, we commenced the large-scale conversion of piped gas delivery infrastructure from coal gas to natural gas in South Puxi Area, which was completed in the first half of 2015. We further expanded our public utility business into the public infrastructure industry in 2003 and wastewater treatment industry in 2005 in Shanghai. These projects are part of public welfare and economic development plans implemented by the Shanghai government, which have brought significant social benefits to the local residents and enhanced our brand image.

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The success of our public utility operations in Shanghai served as a foundation for further expansion of our operations. The extensive operational experience we gained in operating public utility businesses in Shanghai enabled us to expand and quickly ramp up our operations into other regions in Eastern China. The steady cash flow generated from our public utility service operations provided us with necessary capital resources to make strategic and financial investments as a means to efficiently broaden our business reach and diversify our income stream to enhance the value of our Company. Net cash flow generated from our operations was RMB532.5 million, RMB890.3 million, RMB355.2 million and RMB462.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

We believe we are well-positioned to leverage our leading position and market reputation in Shanghai to continue to capitalize on the future economic growth in Shanghai. Our long operational history, strong local presence, well-known brand name and in-depth operational know-how all contribute to our competitive advantages. By leveraging such advantages, we believe we are able to capitalize on the growth opportunities in Shanghai in the future and further consolidate our leading market position. According to the CIC Report, Shanghai has been shifting its focus towards economic and social reforms, and the Shanghai economy is expected to maintain steady growth. The Shanghai government plans to build Shanghai into a global resource distribution center, in particular in the economic, finance, trade and logistics segments. Moreover, the Shanghai government promulgated Shanghai Urban Redevelopment Plans (上海市城市更新實施辦法) in 2015, which mandates, among other things, district government to implement plans to further improve public service facilities and urban infrastructure in Shanghai. In addition, the State Council has promulgated policies to accelerate the PPP reform program which, among other things, encourages private capital to invest in urban gas supply industry by simplifying the government approval process and creating favorable financing environment. We entered into the piped gas supply business in Shanghai in 2001 by acquiring a 50% equity interest in Shanghai Dazhong Gas, as a result of the Shanghai government's initiatives to reform its role in certain industries by introducing private ownership into wholly-owned government operators. We believe we can leverage our experience in Shanghai Dazhong Gas to capture future opportunities in the PPP reform program once it is implemented.

Long-established piped gas supply and quality wastewater treatment operations in the Yangtze River Delta

Our public utility operations focus on continuing to reinforce our leading position as a piped gas supplier while rapidly expanding the scale and the geographic reach of our wastewater treatment operations.

Long-established leading position as a piped gas supplier in Shanghai and Nantong Area

We had a market share of approximately 36.0% in terms of supply volume in 2015 in the natural gas supply industry in Shanghai, according to the CIC Report. Since 2001, we have been the sole supplier of piped gas in the South Puxi Area, one of the most economically

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developed districts in Shanghai, according to the CIC Report. We owned and maintained approximately 6,325 kilometer of underground pipelines in the South Puxi Area, the longest among the three piped gas supply companies in Shanghai according to the CIC Report, through which we served approximately 1.8 million end user accounts as of June 30, 2016. In 2003, we expanded our piped gas supply operations to Nantong Area. We are currently the dominant natural gas supplier in Nantong urban area, and accounted for approximately 80% of the total natural gas supply volume in Nantong urban area in 2015. Our revenue generated from piped gas supply operations was RMB3,695.2 million, RMB3,960.6 million, RMB4,359.7 million and RMB2,379.0 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 94.0%, 94.0%, 94.4% and 93.5% of our total revenue from public utility services during the same periods.

In recent years, the PRC government has been implementing various measures to promote clean energy, including the replacement of coal and other fossil fuels with natural gas. According to the CIC Report, such measures will significantly stimulate natural gas usage and demand in the foreseeable future. The Natural Gas Utilization Policy was promulgated by NDRC in October 2012, followed by the upward adjustment of gateway station prices in July 2013. In addition, we benefited since September 2014 from the implementation of tiered natural gas retail prices for residential end users in Shanghai, which increased our sales revenue and profit margin from residential end users. We believe our status as the leading piped gas supplier in Shanghai and Nantong Area and our scalable operational model will enable us to capitalize on the increasing demand, solidify our market position in Shanghai and expand into natural gas markets of other regions. We believe our continued implementation of technology renovation, such as remote and real time meter reading through a 4G network, will reduce our retail volume loss due to faulty meter reading and save our labor cost, which will improve our profit margin.

Quality wastewater treatment operations

Wastewater treatment is a business with increasing importance and demand in recent years in China due to growing public awareness and concerns of environmental issues. Our management believes wastewater treatment to be a natural extension to our public utility operations and fits into our objective of serving public interests while generating returns for our shareholders.

We expand our wastewater treatment operations through a combination of acquisitions and organic growth. We expanded into the wastewater treatment business in 2003 through a 30-year BT arrangement with the local government for the construction of a wastewater treatment plant in Xiaoshan District, Hangzhou City, Zhejiang Province. The Xiaoshan plant specializes in treating high-density industrial wastewater requiring highly technical processes and facilities. The Xiaoshan plant has won multiple awards, including Qianjiang Bei Award of Construction Projects in Zhejiang Province (浙江省建設工程錢江杯獎) in 2008. In 2005, we acquired a wastewater treatment plant in Jiading District, Shanghai through public bidding and subsequently constructed Phase II and III of the plant, which expanded the designed processing capacity of the plant to 100,000 m³/day and then to 175,000 m³/day. The Jiading

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plant won the National Exemplary Urban Wastewater Treatment Plant Award (全國城鎮污水處理廠優秀運營單位) issued by China Urban Water Supply and Disposal Committee in 2008. In 2010, we acquired a majority equity interest in Jiangsu Dazhong Water which operates five wastewater treatment plants through BOT or TOT arrangements in the Xuzhou Area, a strategic location in the government's plan to divert water source in Southern China to supply Northern China. Our wastewater treatment plants in Xuzhou Area have won multiple awards, including Exemplary Urban Wastewater Treatment Plant in Jiangsu (江蘇省優秀城市污水處理廠) in 2009.

In April 2015, the State Council promulgated the Water Pollution Prevention Plan (水污染防治行動計劃), detailing the government's plans for water pollution prevention and wastewater treatment in China. According to the CIC Report, the subsequent government investments and initiatives under this plan will greatly stimulate the wastewater treatment business and create substantial demands and opportunities. We believe we are well positioned to leverage our operational experience to capitalize on such opportunities.

Diversified income stream through a prudent investment portfolio with solid historical performance of sustained value growth and recurring dividend income

In addition to our operations of public utility services, we also have a long history of making prudent and highly selective strategic and financial investments in public utility, finance and other industries. Our investment principle is to make direct investments in industries of which we have operational experience or in-depth understandings and indirect investment through selected investment platforms in industries we are less familiar with. Through the years, such investments have further enhanced the value our Company. We generally hold our investments in associated companies with a view to long-term growth and return. Our principle for investments in available-for-sale financial assets is to focus on private companies in the PRC which have a plan for a public listing in the foreseeable future.

Long-term strategic investment in Dazhong Transportation Group

In June 1999, we acquired a 24.74% equity interest in Dazhong Transportation Group through a private placement for a total consideration of RMB464.8 million. Upon such acquisition, we became, and since then have been, the largest shareholder of Dazhong Transportation Group. As of June 30, 2016, Dazhong Transportation Group had a net asset value of RMB9.6 billion. Dazhong Transportation Group operates integrated transportation-related businesses, including taxi, car rental, logistics and other businesses. As the largest shareholder, we have participated in, and exerted significant influence over, Dazhong Transportation Group's business and decision-making process. We are also involved in the business decision-making process of Dazhong Transportation Group through our presence in Dazhong Transportation Group's board of directors. Two of our Directors, namely, Mr. Yang Guoping and Mr. Liang Jiawei, serve on the board of Dazhong Transportation Group and our chairman, Mr. Yang Guoping, also serves as the chairman of Dazhong Transportation

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Group. In addition, many members of our senior management have extensive experience in the transportation industry as we started our business as a taxi operator in Shanghai, and our senior management provide strategic and operational advice to Dazhong Transportation Group from time to time.

Our strategic investment in Dazhong Transportation Group has generated strong returns for us over the years. Under the equity accounting method, we recorded share of results from Dazhong Transportation Group in the amount of RMB96.7 million, RMB103.8 million, RMB122.3 million and RMB64.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 26.6%, 24.9%, 21.3% and 15.2% of our profit before tax during the same periods. Dividends we received from Dazhong Transportation Group was RMB30.2 million, RMB30.5 million, RMB33.3 million and RMB37.6 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

Financial investments

We believe prudent financial investment is a viable means to efficiently utilize our capital to increase the value of our Company. Based on extensive diligence and risk analyses, we made equity investments in a portfolio of companies in the public utility, finance, and other industries. In particular, we became the second largest shareholder of Shenzhen Capital Group in November 2002 after acquiring a 20% equity interest and we are currently its third largest shareholder. We are actively involved in the business decision-making and risk management of Shenzhen Capital Group through our presence on its board of directors. Two of our Directors, namely, Mr. Yang Guoping and Mr. Liang Jiawei, serve on the board of directors of Shenzhen Capital Group, and also act as members of strategy and budget committee, remuneration and assessment committee and nominating committee of the board. Mr. Yang serves as the chairman of the remuneration and assessment committee. From 1999 to 2015, Shenzhen Capital Group made over 600 investments for an aggregate amount of over RMB19.6 billion, and had become the largest venture capital company in China in 2015 in terms of capital under management, according to the CIC Report. Shenzhen Capital Group had a net asset value of RMB12.2 billion as of June 30, 2016 and had over 100 public companies listed on 17 stock exchanges globally in its investment portfolio. Under the equity accounting method, we recorded share of results from Shenzhen Capital Group in the amount of RMB116.9 million, RMB149.5 million, RMB127.4 million and RMB103.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 32.2%, 35.9%, 22.2% and 24.5% of our profit before tax during the same periods. Dividend we received from Shenzhen Capital Group was RMB48.8 million, RMB48.8 million, RMB58.5 million and nil in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

In addition, we invested in SEISYS which engages in providing smart solutions to the urban transportation system. Mr. Liang Jiawei serves as a vice chairman of the board of directors of SEISYS. SEISYS won the Second Tier National Technology Progress Award (國家科技進步二等獎) in 2013 for its smart transportation information system.

Proven capability to fulfill our dual responsibilities to serve public interest and generate returns for shareholders through large-scale government public utility projects

Our management believes that, as a listed company whose main businesses are public utility services, we bear the dual responsibilities to serve public interests and create value for our shareholders. We have built a track record of successfully undertaking large-scale government public utility projects which were complicated and time consuming. In 2013, we were rewarded Top 10 Public Companies that Serve Social Responsibilities (最具社會責任上市企業10強) by Nanfang Metropolis Daily (南方都市報). At the same time, we have consistently distributed dividends to our Shareholders since we became a publicly listed company on the Shanghai Stock Exchange in 1993.

By undertaking and successfully completing a number of large-scale public utility and infrastructure projects in Shanghai over the years, we have developed a reputation as a major public utility service provider in Shanghai and established trust with the Shanghai government. We believe such market reputation and trust with the Shanghai government support our bidding efforts for additional public utility projects in Shanghai. For example, as part of the urban redevelopment plan of the Shanghai government, we undertook to convert the piped gas supply system, including pipeline network and end appliances, from coal gas to natural gas for the entire South Puxi Area. Given the population density and existing public infrastructure of South Puxi Area, the conversion project was complicated and the available time slots for construction works were limited in order to minimize public inconvenience. We started the conversion project in 2003 and completed the project in the first half of 2015, upon which we became a pure natural gas supplier in Shanghai. In 2003, we secured our first urban infrastructure project, the BOT arrangement of the Xiangyin Road tunnel, through public bidding. In 2005, we acquired the Jiading wastewater treatment plant through public bidding and subsequently expanded its treatment capacity through the construction of phase II and III of the plant. We believe our track record of successfully completing large-scale public utility projects also facilitated our efforts to secure similar projects outside Shanghai in the past, especially in the Yangtze River Delta region where our operations and brand name are well known such as in Nantong Area and Xuzhou Area.

A public facility project is usually sponsored by the local government to address a particular local issue or as part of a larger urban redevelopment plan. To understand the goal or vision underlying such project is the first step in designing a viable bidding proposal and critical to the overall success of the project. We maintain open communications with local governments with regard to the public utility projects we operate which helps us understand public utility business from the governments' perspective. Moreover, budget planning is critical to the bidding proposal, while subsequent cost control is essential to operating within the budget. Our experience in a number of different types of public utility projects help us to produce a rational budget plan in the bidding process and implement cost saving in the construction and operational phases of the project.

Visionary and experienced management led by Mr. Yang Guoping

The visionary strategic planning and detail-orientated execution of our senior management team, led by our Chairman, Mr. Yang Guoping, are critical to our past and future success.

Mr. Yang has led our business development and presided over our business operation since our inception in January 1992. Over the years, Mr. Yang formulated our business objective of serving public interests while enhancing shareholder's returns, and endorsed the concept of prudent investments in well-understood industries which has become our investment tenet. Mr. Yang was one of the entrepreneurs who participated in the early stage of the economic and corporate structure reform of SOEs in China and has been a business leader in Shanghai during the last three decades. Mr. Yang led a few major public interest related reform projects in Shanghai, including the establishment of taxi operations in 1988, the modernization of corporate structures of SOEs in the public transportation industry in 1997, and the conversion of Shanghai's piped gas supply system since 2003. Mr. Yang has served as a representative to Shanghai People's Congress since 2012. Mr. Yang has received nation-wide acknowledgement for his achievements and won multiple high-profile awards, including:

- The Ten Exemplar Youths of Shanghai (上海十大傑出青年) in 1994, the first time such award was granted;
- National Exemplar Worker (全國勞模) in 2000;
- Shanghai Entrepreneur of the Year (上海年度企業家) in 2007; and
- Ernst & Young Entrepreneurs in 2013.

Our success is also attributable to other members of our senior management, who have extensive experience in our relevant industries and have contributed to the growth of our business since the early stage. Our vice Chairman, Mr. Zhong Jinxing, has served at our Company since 1994. Mr. Zhong has guided and overseen our financial reporting and internal control systems over the years and has led our micro-credit and financial leasing businesses. Our chief executive officer, Mr. Liang Jiawei has served at our Company since 2000. Mr. Liang is deeply involved in all material aspects of our operations and oversees the implementation of our business strategies and plans. Our senior management have an average of over 20 years of experience in our relevant industries and all of our senior management have served in our Company for over 12 years. The experienced and stable key members of our management, including Mr. Yang and Mr. Liang, enable us to consistently implement our operational and investment strategies. We believe our management's in-depth knowledge of our relevant industries also allows us to react swiftly to changing market conditions.

Rigorous corporate governance and risk management

Our strong operational results and robust investment returns are in part attributable to our commitment to rigorous corporate governance and risk management. We have built a corporate

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governance infrastructure which includes detailed internal control and risk management policies that govern all major aspects of our operations in each department, including operational procedures, responsibility allocation, resource management, reporting hierarchy and internal assessment criteria. This corporate governance infrastructure reflects the operational and management experience we have accumulated over 20 years of our operations. The internal control and risk management policies are subject to review and amended to reflect changes in market conditions, applicable rules and regulations and risk profiles of our various business segments. As a result, we have been selected as a member of the corporate governance index (公司治理指數成分股) by the Shanghai Stock Exchange.

Our management believes that risk analysis and control is critical in our investment decision making. Led by our Chairman, our risk management committee reviews and approves all our material investment decisions. For more details on our investment decision making process, please refer to the section “ — Risk Control Policies and Measures”. Our investment department is responsible for the execution of our investment plans and is under the direct management of our chief executive officer. For important investment projects, we also hire third-party professionals, such as independent auditors, legal counsels and appraisal companies to provide independent report or advice. As a result, we have generated positive returns in the majority of our investments during the Track Record Period.

OUR STRATEGIES

Our goal is to become a leading integrated public utility company in China. We will continue to implement our business philosophy, namely, “focused public utility operations with supplemental financial investments (公用事業為主，金融創投為輔)”. We plan to achieve our goal through the following strategies:

Continue to expand and optimize our public utility business and solidify our leading market position

We believe the continued success of our business depends to a large extent on the healthy growth of our public utility operations. We plan to continue to improve the operational efficiency of our natural gas supply operations in Shanghai and Nantong Area and actively pursue opportunities to expand into other regions.

In April 2015, NDRC announced the PRC government’s plan to accelerate reform in the electricity, oil and gas industries. Significantly, NDRC indicated that the government will, for the first time, allow downstream suppliers like us to procure natural gas directly from overseas upstream suppliers. In addition, on July 1, 2015, the Shanghai Petroleum and Natural Gas Exchange commenced its pilot operation, which will facilitate market trading of natural gas as a commodity for the first time in China. This is a significant change from the existing regime under which natural gas can only be procured from a number of major domestic upstream suppliers with procurement prices set by NDRC. According to the CIC Report, such market reform is expected to reduce state control on procurement pricing and enhance our ability to respond to

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changes in market conditions. We will closely monitor and analyze the development of the exchange and assess the feasibility of procuring natural gas through the exchange.

According to the CIC Report, with the central and local governments' initiatives to promote clean energy, the natural gas industry will continue to grow and expand in the PRC. We are closely following the development of the PPP reform program and exploring related opportunities to expand our natural gas supply business in regions outside Shanghai, such as cities in Yangtze River Delta. We believe our operational experience in Shanghai and Nantong Area can be easily extended to other regions.

Develop our environment protection-related business

We believe that environment protection will continue to be a focus in the PRC government's policies, which will result in more business opportunities in the related industries. In light of the favorable regulatory regime, we plan to further develop our environmental protection service business by increasing treatment capacities in our wastewater treatment plants as well as seeking opportunities to enter into new wastewater treatment projects. We plan to construct phase IV of the Jiading wastewater treatment plant, which will increase its treatment capacity to 250,000 m³/day. We are currently in the process of appraising potential building sites for phase IV facilities and we plan to apply for government approval for the Phase IV construction project in the second half of 2017. As such, we have not yet entered into the detailed budget planning phase of the project. We will also endeavor to secure additional wastewater treatment projects outside the areas in which we currently operate by leveraging our operational experience and know-how acquired from our existing projects. Such projects can be procured by either entering into new arrangements with local governments or acquiring equity interest in existing wastewater treatment operators. We believe the PPP reform program, once implemented, will present potential targets for acquisition, such as small-scale SOEs that operate wastewater plants. In addition, we are currently exploring opportunities to enter into new environmental protection related industries, such as water environment improvement and urban solid waste treatment. Such industries are related to the public utility service industries we currently operate in and we believe we can readily leverage our technology know-how and management experience in these new business operations.

Continue to implement our prudent investment philosophy and enhance risk management of our financial investment and service businesses

We plan to continue to implement our investment philosophy and focus on prudent investments in industries of which we have operational experience or in-depth knowledge. We will closely monitor market conditions and actively search for viable target companies for investment. We will also periodically assess the adequacy of our investment risk management analyses, and seek to refine our investment due diligence and approval procedures.

Our micro-credit and financial leasing businesses are both relatively new. It is important for us to further strengthen our risk management system in the micro-credit and financial

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leasing businesses, in order to reduce various operational risks, in particular concentration risk and credit risk. We plan to enhance our risk management through a combination of measures, such as implementing additional internal control policies, further standardizing operational procedures, and hiring experienced management personnel in these two industries. The regulatory framework in the micro-credit industry in the PRC is currently undergoing a major review and we will closely monitor proposed amendments in relevant rules and regulations, as well as changes in market trend, and assess our micro-credit business on an on-going basis to make sure we make necessary adaptations and improvements on a timely basis.

Expand our geographic reach and build a nation-wide and overseas operation platform through organic growth and acquisitions

Our long-term goal is to build a nation-wide and global operation platform by “consolidating our operations in Shanghai, increasing our presence in Eastern China and exploring opportunities overseas”. We plan to expand our geographic reach through a combination of organic growth and acquisitions. We believe our operational experience in the public utility business in Shanghai can be scaled to other cities in the Yangtze River Delta due to proximity and close economic ties between Shanghai and such cities. We will evaluate potential acquisition targets which would expedite access to new regions, industries and key technologies. In evaluating acquisition opportunities, we will take into consideration a number of factors in relation to the potential targets, including geographical location and scale, their recent financial position and results of operations, the potential return on investment, the potential synergy with our operations, the technology advantages, if any, and growth potential. In particular, our short-term plan is to acquire equity interests in piped gas operators in Eastern China. For example, we recently acquired 19.76% of the equity interest in Suchuang Gas. We do not have any plan to further acquire equity interests in Suchuang Gas in the near future except as disclosed in this prospectus. We currently do not have any other definitive target or acquisition plan.

As a long-term goal, we also plan to increase our presence outside China by actively seeking opportunities to collaborate with international public utility companies. We will continue to enhance our management skills, internal control and operational efficiency, to facilitate our expansion into the global market.

Continue to fulfill our social responsibility and serve public interests

We believe our commitment to fulfil our social responsibilities and serve public interest is a cornerstone of our business objective and brings long-term benefits to our business. To further strengthen our services for public interests, we plan to continue to enhance the quality of our core business operations, such as improving safety measures and maintenance services in our natural gas supply business and enhancing our environment protection measures in our wastewater treatment operations. We will continue to optimize our operational efficiency in our other public utility businesses in order to serve public interest while improving returns for our shareholders.

OUR PUBLIC UTILITY SERVICE BUSINESS

Overview

Our public utility service business includes (i) our operations of piped gas supply, wastewater treatment and public infrastructure projects and (ii) our strategic investments in Dazhong Transportation Group and Suchuang Gas.

Public utility services typically have high entry barriers according to the CIC Report and our operations generated steady revenue and cash flow for us over the years. We provide piped gas supply services in Shanghai and Nantong Area. We conduct our wastewater treatment operations in Shanghai, Zhejiang Province and Jiangsu Province through BOT, TOT or BT arrangements with local government authorities. We also maintained a number of public infrastructure projects, including a river-crossing tunnel and two roads, through BOT or BT arrangements, all of which were in concession or repurchase periods during the Track Record Period.

We participate in the public transportation business through our long-term strategic investment in Dazhong Transportation Group. In the first half of 2016, we also acquired 19.76% of the equity interest in Suchuang Gas, a dominant piped gas supplier in Taicang, Jiangsu Province.

Piped Gas Supply Operations

Through our 15 years of operations, we have built piped gas supply as one of our core businesses. We procure gas from upstream piped gas suppliers and deliver to industrial and commercial premises and residential households through our proprietary underground pipeline network. Historically, we provided either coal gas or natural gas to end users in Shanghai, depending on the pipeline system of the end users. In 2003, we commenced the conversion of the coal gas supply system to a natural gas supply system for the entire South Puxi Area. The project was completed in the first half of 2015, since then we have been supplying natural gas exclusively to end users in South Puxi Area.

We started our natural gas supply operations in Nantong urban area, Jiangsu Province in 2003. Currently, we also provide natural gas supply services to Rudong County in Nantong Area.

Revenue generated from our piped gas supply operations accounted for 94.0%, 94.0%, 94.4% and 93.5% of our total revenue in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Revenue generated from our Shanghai operations accounted for 86.1%, 84.6% 85.2% and 85.5%, respectively, of our revenue generated from piped gas supply operations for the same periods.

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The table below sets forth revenue contribution from our gas supply business by regions for the indicated periods:

	Year ended December 31,						Six months ended June 30,	
	2013		2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Shanghai	3,182,721	86.1	3,351,612	84.6	3,715,278	85.2	2,033,261	85.5
Nantong Area	512,503	13.9	608,997	15.4	644,422	14.8	345,761	14.5
Total	<u>3,695,224</u>	<u>100.0</u>	<u>3,960,609</u>	<u>100.0</u>	<u>4,359,700</u>	<u>100.0</u>	<u>2,379,022</u>	<u>100.0</u>

The increases in revenue contributions from our piped gas supply operations in Nantong Area from 2013 to 2014 were primarily attributable to the faster growth in the numbers of end users as compared to our operations in Shanghai during the same periods. The increase in revenue contribution from our operations in Shanghai from 2014 to 2015 was primarily due to the implementation of the tiered gas retail prices for residential end users in Shanghai in September 2014, which resulted in an increase in revenue and gross profit margin of our piped gas supply operations in Shanghai.

Consolidation of the Financial Statements of Shanghai Dazhong Gas

Our Control over Shanghai Dazhong Gas

We conduct our piped gas supply operations in Shanghai through Shanghai Dazhong Gas. Shanghai Gas Group and our Company each holds a 50% equity interest in Shanghai Dazhong Gas and each party has the right to appoint three directors to the six-member board of directors. The legal representative and the chairman of the board, Mr. Yang Guoping, is appointed by us pursuant to the articles of association of Shanghai Dazhong Gas. We have control over Shanghai Dazhong Gas as we control the decision-making process of the relevant activities that significantly affect the returns. After due analysis, the Joint Sponsors and the reporting accountant concur that we have control over Shanghai Dazhong Gas. For more information on our control over Shanghai Dazhong Gas and our basis for consolidating the financial statements of Shanghai Dazhong Gas, please refer to the section “Financial Information — Critical Accounting Policies and Judgements — Judgements — Consolidation of entities in which the Group holds 50% voting rights — Control over Shanghai Dazhong Gas”.

Expert accounting advisory opinions on our consolidation of the financial statements of Shanghai Dazhong Gas

We have engaged two leading international accounting firms (“**Accounting Expert A**” and “**Accounting Expert B**”, respectively, and together, the “**Accounting Experts**”) to issue independent third party accounting advisory opinions on whether it is appropriate to consolidate the financial statements of Shanghai Dazhong Gas in the consolidated financial statements of the Company under IFRS 10.

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In forming its opinion, each of the Accounting Experts evaluated all relevant facts presented, including the fact that Shenergy Group also consolidated the financial statements of Shanghai Dazhong Gas in its bond offering circulars.

(A) Accounting Expert A's Accounting Advisory Opinion

In assessing whether the judgement made by the Directors regarding consolidation of Shanghai Dazhong Gas is appropriate, Accounting Expert A made reference to IFRS 10 which states that an entity controls another entity, if and only if:

- the entity has power over the other entity;
- the entity has exposure, or has rights, to variable returns of the other entity; and
- the entity has ability to use the power to affect the variable returns of the other entity.

Accounting Expert A considers all facts presented and critical judgement made by the Directors. In forming its accounting advisory opinion, Accounting Expert A considers the assessment made by the Directors of each of the above criteria as set out in IFRS 10 as follows:

In assessing whether the Group has power over Shanghai Dazhong Gas, the following considerations were taken into account:

Purpose and design of Shanghai Dazhong Gas: The Directors consider that the purpose and design since the establishment of Shanghai Dazhong Gas is for the Group to control it. This is reflected in Clause 7.4 of the Shareholders' Agreement of Shanghai Dazhong Gas which stated that "the Company should consolidate the financial statements of Shanghai Dazhong Gas". Moreover, the management and operation system of Shanghai Dazhong Gas was set up by the Group and key management personnel overseeing the relevant activities which significantly affect the returns (the "**Relevant Activities**") are nominated and appointed by the Group. Such management and operation system has been effectively executed for 15 years and to the best knowledge of the Directors, Shanghai Gas Group had never raised any objection in this respect. In addition, the Group has veto right to block any changes to the current system.

Relevant Activities of Shanghai Dazhong Gas and how decisions about the Relevant Activities are made: The Directors have determined that Relevant Activities of Shanghai Dazhong Gas are: (a) design and construction of gas pipelines; (b) appointment, evaluation and remuneration of key management personnel; (c) budgeting and financial management; (d) management of supply and sales volume difference and major customer discount; and (e) strategic investments. On the other hand, given the strict regulation in the gas supplies industry, neither the Group nor Shanghai Gas Group is able to adjust the gas procurement and retail price or opt to suspend or terminate gas supply. Accordingly, the Directors conclude that supply and sales of piped gas (excluding management of supply and sales volume difference

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and major customer discount) are not Relevant Activities. While it was not specified in the articles of association or Shareholders' Agreement of Shanghai Dazhong Gas, in practice, all important decisions relating to Relevant Activities are made at the executive management meetings led by the Chairman appointed by the Group.

The current ability of the Group to direct relevant activities: The Directors concluded that the Group has the current ability to direct Relevant Activities of Shanghai Dazhong Gas as:

- the Group can nominate and appoint key management personnel of Shanghai Dazhong Gas, which includes the chairman and legal representative, secretary of the board, chief financial officer, chief economist and chief engineer. These key management personnel are those who collectively and individually have the ability to direct Relevant Activities;
- the chairman appointed by the Group directs Shanghai Dazhong Gas on all significant transactions through his active leadership in the executive management meetings. The chairman is also the legal representative of Shanghai Dazhong Gas who is responsible for signing key contracts with external parties and makes relevant payments; and
- the Group has majority voting rights at the remuneration committee which determines the remuneration of key management as an incentive to achieve its operational and financial goals.

Also, the Directors consider that Shanghai Dazhong Gas does not rely on Shanghai Gas Group operationally or financially and Shanghai Gas Group cannot unilaterally approve any changes to the arrangement discussed above. Based on the above, the Directors consider that the Group is the party that has power over Shanghai Dazhong Gas.

Since the Group holds 50% equity interest in Shanghai Dazhong Gas, it is considered that the Group has sufficient exposures from variable returns of Shanghai Dazhong Gas and is able to use its power to affect the variable returns.

Based on all relevant facts and circumstances as represented by the Directors and taking into account the analysis and critical judgement made by them, Accounting Expert A considers that the Directors have a reasonable basis to consolidate the financial statements of Shanghai Dazhong Gas in its consolidated financial statements for the three years ended December 31, 2015 in accordance with IFRS. Our Directors confirmed that, to the best of their knowledge, there was no material change to any and all relevant facts and circumstances stated above in the expert opinion from January 1, 2016 to the Latest Practicable Date.

(B) Accounting Expert B's Accounting Advisory Opinion

The Directors consider that the Group has control over Shanghai Dazhong Gas and it should consolidate Shanghai Dazhong Gas' financial statements pursuant to relevant regulations and requirements of control under IFRS 10. Accounting Expert B understands that critical judgment is required when the Directors determine the relevant accounting policy on the consolidation of Shanghai Dazhong Gas. Accounting Expert B made an analysis in the following aspects:

- (i) whether the Group has power to direct the relevant activities of Shanghai Dazhong Gas;
- (ii) whether the Group has exposure, or rights, to variable returns from Shanghai Dazhong Gas; and
- (iii) whether there is a link between the power and the variable returns, which means whether the Group has the ability to use its power to affect the variable returns.

(a) Relevant activities of Shanghai Dazhong Gas

Shanghai Dazhong Gas, since its establishment in 2001, has been operating within the Shanghai city municipal development plan and the gas supply of the industry. The city municipal government authorities set procurement prices and retail prices, and impose strict obligations on upstream suppliers and downstream households so as to maintain stable and uninterrupted supplies to all end users, which leave a relatively stable margin space for profitability of Shanghai Dazhong Gas. As a result, there is no need for Shanghai Dazhong Gas to focus on expanding its market shares within the region of Shanghai city.

As the main operations of Shanghai Dazhong Gas focus on the midstream activities, Accounting Expert B concurs with the Directors that the relevant activities which significantly affect variable returns are: (1) significant strategic investments and acquisitions; (2) design, construction and improvement of gas pipelines; (3) control over supply and sales volume difference; (4) budgeting and financial management; (5) manpower and other cost control; and (6) control over cash flows.

(b) Power to direct the relevant activities

Shareholders level:

From 2001 to December 31, 2015, the Directors confirm there were a total of seven shareholders' resolutions being passed in Shanghai Dazhong Gas. The first resolution was made in 2001 for approving the article of association, electing directors and supervisors, and reporting the process of Shanghai Dazhong Gas' set-up. The other six resolutions mainly related to appointment of directors and supervisors, approving share transfer, and approving

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the Nangchang Gas Co., Ltd's equity arbitration matter. In view of the above and as further described by the Directors, the shareholders meeting merely acts as a legal form of the highest authority of Shanghai Dazhong Gas.

Board of directors level:

The board of directors consists of six directors, three of whom are appointed by the Company, including the chairman of the board. The other three directors are appointed by Shanghai Gas Group. Three of the six directors are executive directors, among whom two are appointed by the Company and one is appointed by Shanghai Gas Group.

Mr. Yang Guoping, who acts as both the legal representative and the chairman of the board of Shanghai Dazhong Gas, is deeply involved in the daily operations of Shanghai Dazhong Gas and exerts more power and authority over the board compared with other directors.

The remuneration committee set up by the board of directors of Shanghai Dazhong Gas contains three members, including two directors appointed by the Company and one director appointed by Shanghai Gas Group. Decisions are made effectively by simple majority votes. As such, the Group makes evaluation and supervision over the remuneration of the key management members of Shanghai Dazhong Gas through the remuneration committee, further strengthening the performance evaluation of the key management members of Shanghai Dazhong Gas.

Key management members:

Apart from the definition of the key management as stated in the Shareholders' Agreement of Shanghai Dazhong Gas and its articles of associations, Shanghai Dazhong Gas considers personnel directly appointed by the board whose remunerations are fixed and evaluated by the remuneration committee is categorized as "key management". As of December 31, 2015, the key management of Shanghai Dazhong Gas consisted of nine members, including five members appointed by the Company, one appointed by Shanghai Gas Group, and the three vice general managers being promoted from the middle-level positions of Shanghai Dazhong Gas.

The chairman of the board, the secretary of the board and the chief financial officer are appointed by the Company. The chairman of the board acts as the legal representative of Shanghai Dazhong Gas at the same time, which is explicitly stipulated in the Shareholders' Agreement of Shanghai Dazhong Gas and its articles of association. The chief engineer and the chief economist have been appointed by the Company since Shanghai Dazhong Gas' inception. In practice, the two key management positions were added under the proposal of the Company and are exclusively appointed by the Company. In addition, the Company obtained the approved statement from the board of directors of Shanghai Dazhong Gas on March 30, 2016 that confirmed the Company's the right to appoint these two key management members.

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The above five key management members are all appointed by the Company. Only the general manager is appointed by Shanghai Gas Group. Accounting Expert B learned the fact from the Directors that the appointment of general manager by Shanghai Gas Group was agreed upon by both parties under the Shareholders' Agreement of Shanghai Dazhong Gas then, as the government authority requested a representative in the key management members of Shanghai Dazhong Gas so as to prevent any potential loss of state-owned assets. During the daily operation process, the general manager role is more towards taking on as an executive to follow the decision made by the chairman.

Accounting Expert B concurs with the Directors that the relevant activities of Shanghai Dazhong Gas are directed by the Company and the directors appointed by Shanghai Gas Group follow the decisions made by the directors appointed by the Company. Under such situation, it is very unlikely that the Company will attempt to make any changes to the current arrangement. Pursuant to the Shareholders' Agreement of Shanghai Dazhong Gas and its articles of association, any special resolutions such as revising any terms of the Shareholders' Agreement of Shanghai Dazhong Gas and its articles of association, should be approved by at least two thirds of shareholder votes. As such, the Company can veto any resolutions or special events that are going against its interests.

Analysis of key management's decision made on relevant activities:

Since 2001, the key management members (including the chairman, the secretary of the board, the chief engineer, the chief economist and the chief financial officer) have been fully taking charge of the relevant activities, and have directly reported to the chairman of the board, among which: (1) significant strategic investments and acquisitions are led by the chief economist along with relevant departments of the Company; (2) design, construction and improvement of gas pipelines are all in the charge of the chief engineer. The chief engineer and the chief economist make plans and then formal proposals under the guidance of the chairman; (3) control of supply and sales volume difference is in the direct charge of the chief engineer: The chief engineer reports the index of supply and sales volume difference to the executive management meetings. If the difference index is found to be significantly abnormal, the chief engineer will organize and coordinate relevant departments to make investigations and rectifications; (4) budgeting and financial management: annual budgets are initiated by the chairman of the board, communicated, negotiated and adjusted by the chief economist and the chief financial officer with each subsidiary corporation. Then the drafted budgets are reported to the chairman and finalized pursuant to the opinion of the chairman. Financial statements are directed by the chief economist and the drafts are reported to the chairman, which are formed into a formal document after revision pursuant to the instruction of the chairman; (5) manpower and other cost control activities are mainly accomplished through financial budgets: the performance indications of the key management are prepared by the secretary of the board based on the performance assignment book agreed at the beginning of the year, and submitted to chairman and the remuneration committee for final review. The chairman will give final approval on the performance assignment; and (6) control over cash flows: all payment need the

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approval and signature of the chief financial officer. All payments, except petty cash payments, require approval by the chairman.

Based on the above facts and analysis, Accounting Expert B concurs that the Company has the power, through the appointment of key management members, that give them the current ability to direct the relevant activities of Shanghai Dazhong Gas.

(c) Link between power and returns

Based on the above facts and analysis described in the preceding paragraphs, the Company, as a shareholder of Shanghai Dazhong Gas, has exposure, or rights, to variable returns from Shanghai Dazhong Gas. The Company has the power through the appointment of key management members that give them the current ability to direct the relevant activities of Shanghai Dazhong Gas, and to use its power to affect the variable returns of Shanghai Dazhong Gas.

(d) Other control arrangements

Since 2001, the Group has consolidated Shanghai Dazhong Gas in its A-share annual reports as approved by the board of directors, which have been audited and issued with an unqualified standard opinion by the independent auditors, BDO China Shu Lun Pan Certified Public Accountants LLP. In addition, pursuant to the Shareholders' Agreement of Shanghai Dazhong Gas entered into in September 2001, the Company has the right to consolidate the financial statements of Shanghai Dazhong Gas.

Accounting consultation opinion:

Based on Accounting Expert B's understanding on all relevant facts and documents as provided by the Directors, and after taking into consideration the analysis and critical judgment and extent of significance made by the Directors, Accounting Expert B concurs with the Directors that it is reasonable for the Group to consolidate Shanghai Dazhong Gas in its consolidated financial statements for the three years ended December 31, 2015 in accordance with IFRS. Our Directors confirmed that, to the best of their knowledge, there was no material change to any and all relevant facts and circumstances stated above in the expert opinion from January 1, 2016 to the Latest Practicable Date.

Shenergy Group's consolidation of the financial statements of Shanghai Dazhong Gas

In August 2015, we became aware that Shenergy Group, which wholly-owns Shanghai Gas Group, has issued bond offering circulars in which Shenergy Group consolidated the financial statements of Shanghai Dazhong Gas, which is inconsistent with the Shareholders' Agreement of Shanghai Dazhong Gas that provides the Company with the right to consolidate the financial statements of Shanghai Dazhong Gas. The Company has been advised by its PRC legal advisers that Shanghai Gas Group does not have control over Shenergy Group which is not a

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party to the Shareholders' Agreement of Shanghai Dazhong Gas. Consequently, the consolidation of the financial statements of Shanghai Dazhong Gas by Shenergy Group does not constitute a breach of the Shareholders' Agreement of Shanghai Dazhong Gas by Shanghai Gas Group.

Our Directors performed detailed inquiries and analyses on all relevant offering circulars of Shenergy Group that were publicly available as of the Latest Practicable Date, and noted that although Shenergy Group had been consolidating the financial statements of Shanghai Dazhong Gas in these offering circulars, different bases had been adopted to justify such treatment at different times.

Our Directors confirm, after due analyses, Shenergy Group's consolidation of the financial statements of Shanghai Dazhong Gas is not an indication that there is any change in facts and circumstances based on which our Group reached the judgement that we have control over Shanghai Dazhong Gas. As such, no adjustment needs to be made to the Group's financial statements for the Track Record Period in light of Shenergy Group's consolidation of the financial statements of Shanghai Dazhong Gas.

Our Directors further note that the disclosure obligation and standards, level of regulatory scrutiny and scope of disclosure recipients for our annual reports are quite different compared with those of the bond offering circulars issued by Shenergy Group. In particular:

- Our Company has been a publicly-listed company on the Shanghai Stock Exchange for over 20 years and has been publicly disclosing annual reports which include the consolidation of the financial statements of Shanghai Dazhong Gas since 2001. Our public disclosures are regulated by Regulations on Information Disclosure by Public Companies (上市公司資訊披露管理辦法) promulgated by CSRC and the Guidance to Regulations on Information Disclosures of Companies Listed on Shanghai Stock Exchange (上海證券交易所上市公司資訊披露事務管理制度指引) issued by Shanghai Stock Exchange, among other things. In comparison, Shenergy Group is a private company whose accounting judgement is not subject to the same level of regulatory disclosure requirements. We are advised by our PRC legal advisers that disclosures in the bond offering circulars issued by Shenergy Group are subject to Announcement on Information Disclosure in Debt Instruments for Non-financial Enterprises on Inter-Bank Debt Market (銀行間債券市場非金融企業債務融資工具資訊披露規則公告) promulgated by National Association of Financial Market Institutional Investors, which is a self-regulatory organization established by market participants.
- Pursuant to the applicable rules and regulations, our public disclosures are subject to review by the Shanghai Stock Exchange and/or CSRC. In comparison, we are advised by our PRC legal advisers that the bond offering circulars of Shenergy Group are not subject to any regulatory review process but only need to be filed with the National Association of Financial Market Institutional Investors for record under the relevant PRC rules and regulations.

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- While our annual reports are publicly disclosed to the general market, Shenergy Group's bond offering circulars are distributed to selected institutional investors of the bonds.

We sent an official "cease-and-desist" letter to Shenergy Group in October 2015 which demanded Shenergy Group to comply with the relevant rules under the PRC GAAP and stop consolidating the financial statements of Shanghai Dazhong Gas. In December 2015, we received a written response from Shenergy Group which stated that Shenergy Group would comply with the relevant rules under the PRC GAAP. Our Directors understood that the basis of control under PRC GAAP are substantially converged with Hong Kong and international standards. Consequently, our Directors are of the view that Shenergy Group in effect would cease to consolidate the financial statements of Shanghai Dazhong Gas. We have been closely monitoring the situation and discovered that Shenergy Group continued to consolidate the financial statements of Shanghai Dazhong Gas in its bond offering circular published in January 2016. In July 2016, we sent another letter to the management of Shenergy Group demanding Shenergy Group to cease and desist the consolidation of the financial statements of Shanghai Dazhong Gas in compliance with the PRC GAAP principles and to honor its written response made to us in December 2015. As of the Latest Practicable Date, we had not received any response from Shenergy Group to our July 2016 letter.

The Directors believe that Shenergy Group's continued consolidation of the financial statements of Shanghai Dazhong Gas in January 2016 contradicted with its written response made to us in the December 2015 letter, which is legally binding on Shenergy Group, as we are advised by our PRC legal advisers. Nevertheless, we are further advised by our PRC legal advisers that legal proceedings are not a viable means to resolve such issue at the current stage for the following reasons:

- Shenergy Group is not a party to, and not legally bound by, the Shareholders Agreement between the Company and Shanghai Gas Group, notwithstanding the fact that Shenergy Group wholly-owns Shanghai Gas Group;
- the practice of consolidating a subsidiary is an accounting judgement and there is no PRC law that is directly applicable to such judgement; and
- to the best knowledge and belief of our Directors, we have not suffered any direct and substantive loss or damage that is actionable as a result of Shenergy Group's consolidation of the financial statements of Shanghai Dazhong Gas.

Based on such advice, our Directors decided not to initiate any legal proceedings at the current stage.

Shanghai Gas Group is the second largest shareholder of our Company and has nominated one Director to the Board of our Company. Since 2001, the Director of our Company nominated by Shanghai Gas Group has participated at every Board meeting in which an annual

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report finalized after incorporation of the chairman's opinion was presented for board approval. The consolidation of Shanghai Dazhong Gas' financial statements by our Company was disclosed in each report and the director nominated by Shanghai Gas Group approved each report. The latest report was our Group's unaudited financial report for the nine months ended September 30, 2016, which was approved by such Director in a Board meeting held on October 27, 2016. Our Directors believe that Shenergy Group, which wholly owns Shanghai Gas Group, should also be aware of the consolidation of the financial statements of Shanghai Dazhong Gas. Our Directors confirm that as of the Latest Practicable Date, neither Shenergy Group nor Shanghai Gas Group had raised any objection, and there was no dispute between us and Shenergy Group or Shanghai Gas Group, over the consolidation of the financial statements of Shanghai Dazhong Gas by our Company.

Consolidation of the Financial Statements of Nantong Dazhong Gas

We conduct our piped gas supply business in Nantong Area through our indirect subsidiary, Nantong Dazhong Gas. Shanghai Dazhong Gas Investment and Nantong Gas General each owns a 50% equity interest in Nantong Dazhong Gas. Each party has appointed three directors to the board of Nantong Dazhong Gas which currently comprises six directors. The procedural rules of the board of directors of Nantong Dazhong Gas specifically provides that the chairman of the board has (i) a casting vote in the event of a deadlock board vote and (ii) a veto right on matters in daily operations. The chairman of the board and legal representative of Nantong Dazhong Gas is appointed by Shanghai Dazhong Gas Investment pursuant to the articles of association of Nantong Dazhong Gas. Pursuant to the shareholders' agreement of Nantong Dazhong Gas, Nantong Gas General has a right to nominate an expert in the industry as an additional independent director. We are advised by our PRC legal advisers that pursuant to the articles of association, the appointment of a director has to be approved by the shareholders' meeting with more than 50% voting right. As such, an independent director can only be appointed with our consent. We have control over Nantong Dazhong Gas as we control Nantong Dazhong Gas' decision-making process at the board level and daily operations at the senior management level. After due analysis, the Joint Sponsors and the reporting accountant concur that we have control over Nantong Dazhong Gas. For more information on our control over Nantong Dazhong Gas and our basis for consolidating the financial statements of Nantong Dazhong Gas, please refer to the section "Financial Information — Critical Accounting Policies and Judgements — Judgements — Consolidation of entities in which the Group holds 50% voting rights — Control over Nantong Dazhong Gas".

Sales of Piped Gas

We deliver piped gas to industrial and commercial premises and residential households which are the end users and our customers. We also provide repair and maintenance services to customers for pipelines on their premises and related accessories.

We categorize our customers as residential and non-residential end users for which we charge different retail prices pursuant to the relevant regulations. For certain non-residential

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users with a high consumption of piped gas, we generally enter into individual supply agreements with them. We generate gas sales revenue based on the rate of consumption of piped gas, which is charged by volume based on the unit price. When our customers consume piped gas, the pressure in our pipelines will decrease and our piped gas processing stations, which are connected to the pipelines of our upstream suppliers and regulate the inflow of piped gas, will automatically adjust the flow of piped gas from our upstream suppliers to maintain the pressure in our pipelines. As a result, we do not maintain a large volume of piped gas as inventory. The meters of our upstream suppliers and the meters installed at our city gateway stations will record the amount of piped gas supplied to us. We experienced regular seasonality in our sales of piped gas during the Track Record Period. In general, sales volume of piped gas are higher during the first quarter of a year. Revenue generated from natural gas accounted for 86.6%, 93.7%, 99.5%, 100.0% of our revenue from gas supply in Shanghai in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The increases in percentages of revenue contribution of natural gas were a result of our conversion project which replaced the coal gas supply system with a natural gas supply system.

The table below sets forth information in relation to our sales of piped gas by end user type in Shanghai for the periods indicated:

	Year ended December 31,						Six months ended	
	2013		2014		2015		June 30,	
	%		%		%		2016	
	%		%		%		%	
Sales volume (million cubic meter)								
<i>Residential</i>								
Coal gas	75.8	7.5	27.7	2.9	<0.1	<0.1	-	-
Natural gas	331.3	32.7	366.1	38.4	382.8	41.8	245.8	45.8
Subtotal	407.1	40.2	393.8	41.3	382.8	41.8	245.8	45.8
<i>Non-residential</i>								
Coal gas	143.2	14.1	71.6	7.5	6.8	0.7	-	-
Natural gas	462.8	45.7	489.1	51.2	526.9	57.5	290.4	54.2
Subtotal	606.0	59.8	560.7	58.7	533.7	58.2	290.4	54.2
Total	1,013.1	100	954.5	100	916.5	100	536.2	100.0

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	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	Average retail price (RMB/m³, VAT exclusive)⁽¹⁾			
Residential				
Coal gas	1.11	1.11	1.11	–
Natural gas	2.21	2.28	2.84	2.87
Non-residential				
Coal gas	1.91	2.06	2.08	–
Natural gas	3.40	3.69	3.79	3.50
Number of end user accounts (in thousand)				
Residential	1,707.3	1,727.3	1,748.9	1,755.1
Non-residential	23.9	24.9	26.5	26.6
Total	1,731.2	1,752.2	1,775.4	1,781.7

Note:

- (1) The average retail price is calculated by dividing (a) payment received excluding VAT by (b) sales volume for the period.

The table below sets forth information in relation to our sales of natural gas by customer type in Nantong Area for the periods indicated:

	Year ended December 31,						Six months ended June 30,	
	2013		2014		2015		2016	
	%	%	%	%	%	%	%	%
Sales volume (million cubic meter)⁽¹⁾								
Residential	33.5	26.8	39.6	25.8	45.1	28.6	31.0	32.3
Non-residential	91.3	73.2	113.9	74.2	112.5	71.4	65.0	67.7
Total	124.8	100	153.5	100	157.6	100	96.0	100.0
Average retail price (RMB/m³, VAT exclusive)⁽²⁾								
Residential	1.99	–	1.99	–	2.02	–	2.14	–
Non-residential	3.82	–	3.64	–	3.63	–	3.00	–
Number of end user accounts								
Residential	261,763	99.6	300,432	99.6	341,299	99.7	446,186	99.7
Non-residential	960	0.4	1,126	0.4	1,134	0.3	1,551	0.3
Total	262,723	100	301,558	100	342,433	100	447,737	100.0

Notes:

- (1) Including sales of both piped natural gas procured from CNPC and LNG and CNG procured from third parties.
- (2) The average retail price is calculated by dividing (a) payment received excluding VAT by (b) sales volume for the period.

Retail prices

According to the PRC Pricing Law, the PRC government may direct, guide or adjust the prices of public utilities. NDRC sets the gateway station prices of piped gas, and makes adjustments to such prices from time to time. Local government authorities, such as Shanghai DRC and Nantong Price Bureau, upon approval from the local municipal government, set the benchmark and/or maximum piped gas retail prices generally with a reference to the gateway station prices. Please refer to the section “Regulatory Overview — The Laws and Regulations of the PRC relating to the Municipal Public Utilities Industry — Natural Gas Supply and Sales Business — Natural gas pricing mechanism”.

The benchmark and the maximum piped gas retail prices differ for residential and non-residential end users. Retail prices for non-residential usage, such as by industrial and commercial end users, are generally higher than those for residential usage. Local DRC and/or price bureau may adjust the retail prices from time to time due to various reasons, such as in response to increases of piped gas gateway station prices mandated by NDRC, inflation, or for other local considerations. There is usually a time lag between the increase of procurement prices and retail prices by the relevant government authorities. As a result, our operating results may be adversely affected in the event of an increase of procurement prices. For more details, please refer to “Risk Factors — Risks Relating to Our Business — Piped gas procurement and retail prices are controlled and adjusted from time to time by the competent government authorities and we do not have control over such prices or adjustments. Our profit may be materially and adversely affected if we are unable to pass on increases in procurement prices to our end users in a timely manner”.

Average retail price of natural gas for residential end users in Shanghai

Our average retail price for residential users in Shanghai increased from RMB2.21/m³ in 2013 to RMB2.28/m³ in 2014 and then to RMB2.84/m³ in 2015 and further to RMB2.87/m³ in the six months ended June 30, 2016. The increases were primarily due to the implementation of tiered pricing structure for residential users. In September 2014, Shanghai DRC implemented Response in Relation to the Adjustment of Piped Gas Retail Price for Residential Users in Shanghai (關於調整本市居民用戶管道燃氣價格的複函) which set up the tiered natural gas price structure for residential users based on usage, by charging higher unit prices on the volume exceeding certain thresholds. Based on volume, the retail prices for residential end users range from RMB3.00/m³ to RMB4.20/m³. Prior to September 2014, only non-residential natural gas users were charged according to a tiered price structure in Shanghai. In particular, the average natural gas retail prices for residential end users in Shanghai:

- increased from RMB2.21/m³ in 2013 to RMB2.28/m³ in 2014 primarily due to the application of the tiered pricing from September 2014 to December 2014;

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- increased from RMB2.28/m³ in 2014 to RMB2.84/m³ in 2015 primarily due to the application of the tiered pricing for the whole year in 2015 as compared to four months in 2014; and
- increased from RMB2.84/m³ in 2015 to RMB2.87/m³ in the six months ended June 30, 2016 primarily due to higher percentage of sales volume being charged at higher prices during the first half of 2016 under the tiered pricing system.

Average retail price of natural gas for non-residential end users in Shanghai

Our average natural gas retail price for non-residential users in Shanghai was RMB3.40/m³, RMB3.69/m³, RMB3.79/m³ and RMB3.50/m³ in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, primarily due to changes in retail prices pursuant to the relevant regulations by the local government. Shanghai DRC implemented three Notices on the Adjustment of Natural Gas Retail Price for Non-residential Users in Shanghai (關於實施本市非居民用戶天然氣銷售價格聯動調整的通知) in August 2013, October 2014 and December 2015, respectively, which increased natural gas benchmark retail prices for non-residential users by RMB0.40/m³ and RMB0.20/m³, and decreased natural gas benchmark retail prices for non-residential users by RMB0.42/m³, respectively. In Shanghai, retail price for non-residential users had a tiered structure based on usage volume. Depending on the type of non-residential premises, retail prices for non-residential end users vary, for example, retail prices for industrial premises were generally RMB0.40/m³ higher than commercial premises on the same volume tier.

Average retail price of natural gas for residential end users in Nantong Area

The average retail prices of natural gas for residential end users in Nantong Area:

- remained unchanged at RMB1.99/m³ in 2013 and 2014;
- remained relatively stable from RMB1.99/m³ in 2014 to RMB2.02/m³ in 2015; and
- increased from RMB2.02/m³ in 2015 to RMB2.14/m³ in the six months ended June 30, 2016 primarily due to the implementation of the tier pricing structure for residential users in Nantong Area in 2016.

On January 1, 2016, Nantong Price Bureau and Nantong Urban and Rural Construction Bureau implemented the Notice on Adjustment for the Retail Price for Residential Users in Nantong (關於市區居民生活用管道天然氣價格的通知) which set up the tiered natural gas price structure for residential users based on usage, by charging higher unit prices on the volume exceeding certain thresholds. Based on volume, the retail prices for residential end users range from RMB2.40/m³ to RMB3.60/m³.

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Average retail price of natural gas for non-residential end users in Nantong Area

Our average natural gas retail price for non-residential users in Nantong was RMB3.82/m³, RMB3.64/m³, RMB3.63/m³ and RMB3.00/m³ in 2013, 2014 and 2015 and in the six months ended June 30, 2016, respectively. Nantong Price Bureau implemented two Notices on the Adjustment of Natural Gas Retail Price for Non-residential Users in the Urban Area (關於調整市區非居民用戶天然氣銷售價格的通知) in November 2013 and May 2015, which set the mid reference natural gas retail prices for non-residential users to RMB3.82/m³ and RMB3.74/m³, respectively, with a 10% deviation allowed, and the maximum natural gas retail prices in Nantong urban area to RMB4.20/m³ and RMB4.11/m³, respectively. We negotiate and enter into natural gas supply agreements with certain non-residential end users in Nantong Area who consume large volume of piped gas. Nantong Price Bureau implemented one Notice on the Decrease of Natural Gas Maximum Retail Price for Non-residential Users in the Urban Area (關於降低市區非居民用戶天然氣最高銷售價格的通知) in December 2015, which decreased the maximum natural gas retail price for non-residential end users in Nantong urban area to RMB3.36/m³. The retail prices for such non-residential users were individually negotiated and set within the approved 10% range of the reference price.

Maintenance and Customer Services

We are responsible for the repair and maintenance of our proprietary underground and above-the-ground pipeline network. Our safety and service department sets safety and maintenance measures and monitors the implementation of such measures. We have a maintenance schedule pursuant to which the maintenance crew performs inspection and maintenance work on our pipeline network. We also engage third-party contractors to perform certain regular pipeline inspection and maintenance works. We closely monitor the operations of such contractors.

We operate a service center and several service branches where end users can make payment or schedule repair and other services.

Operations in the Absence of a Concession Agreement in Shanghai

Pursuant to the Shanghai Gas Administrative Measures (上海市燃氣管理條例), a Gas Operation Permit (燃氣經營許可證) is needed for any entity to engage in piped gas supply business. Our current Gas Operation Permit is valid for eight years till April 2024. In addition, pursuant to Shanghai Piped Gas Concession Rights Approval and Regulatory Measures (上海市管道燃氣特許經營授權和監督管理程序), a piped gas supplier in Shanghai is required to obtain the relevant concession rights from the competent government authorities.

As of the Latest Practicable Date, Shanghai Gas Administration Bureau (上海市燃氣管理處), which is the current competent government authority in charge of gas supply regulation in Shanghai as advised by our PRC legal advisers, was still in the process of formulating its regulatory framework and procedures pursuant to which concession rights will be granted to

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piped gas suppliers in Shanghai. As a result, no such concession rights were granted, and no concession agreement was entered into, with any of the three piped gas suppliers in the Shanghai Urban Area, including us, as of the Latest Practicable Date.

On September 1, 2015, Shanghai Gas Administration Bureau issued a written confirmation to Shanghai Dazhong Gas which provided, among other things, that:

- as of the date of the confirmation, Shanghai Gas Administration Bureau was still in the process of formulating a regulatory framework and procedures pursuant to which concession rights are to be granted to piped gas suppliers in Shanghai;
- Shanghai Dazhong Gas has obtained a valid Gas Operation Permit and Shanghai Dazhong Gas' gas supply operations in South Puxi Area are in compliance with the relevant industry laws and regulators and Shanghai Dazhong Gas has the requisite qualifications to conduct operations;
- Shanghai Gas Administration Bureau has approved Shanghai Dazhong Gas' gas supply operations since its incorporation in 2001; and
- until the regulatory framework and procedures in relation to the grant of concession rights are promulgated by Shanghai Gas Administration Bureau, Shanghai Dazhong Gas has the right to continue to conduct its gas supply business and will not be disqualified for gas supply operation nor sanctioned for not entering into a concession agreement.

We are advised by our PRC legal advisers that:

- we have legally obtained the Gas Operation Permit and have the requisite qualification to conduct gas supply business in Shanghai;
- Shanghai Gas Administration Bureau is the competent government authority to (i) regulate the gas supply industry in Shanghai and (ii) issue the confirmation in relation to the legality of Shanghai Dazhong Gas' gas supply operations; and
- Shanghai Dazhong Gas will not be disqualified for its gas supply operations or be subject to sanction for its gas supply operations in Shanghai even through it does not hold concession rights.

Our Directors confirm that there was no material development in the concession right situation in Shanghai from September 2015 to the Latest Practicable Date.

Operations in the Absence of a Concession Agreement in Nantong Area

We conduct our gas supply operations in Nantong Area through Nantong Dazhong Gas, and its subsidiaries, Nantong Development Zone Gas and Rudong Dazhong Gas.

In November 2003, Nantong City Government (南通市人民政府) issued a meeting minute which consented to grant Nantong Dazhong Gas a 20-year concession rights to operate gas supply business in Nantong urban area. Nantong Dazhong Gas' current Gas Operation Permit is valid till July 2020.

In December 2006, Nantong Urban and Suburb Construction Bureau (南通市城鄉建設局), the competent authority in charge of gas supply regulation in Nantong Area, granted Nantong Dazhong Gas an approval to establish a subsidiary in Nantong development zone and operate gas supply business in the Nantong development zone pursuant to the concession rights granted to Nantong Dazhong Gas by Nantong City Government in 2003. Nantong Development Zone Gas' current Gas Operation Permit is valid till May 2019.

In June 2005, Rudong County Construction Bureau (如東縣建設局) entered into a concession agreement with shareholders of Rudong Dazhong Gas, namely, Nantong Dazhong Gas and Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司), which approved the incorporation of Rudong Dazhong Gas and granted Rudong Dazhong Gas a 30-year concession right to operate gas supply business in Rudong County. Rudong Dazhong Gas' current Gas Operation Permit is valid till October 2020.

On December 31, 2015, Nantong Urban and Suburb Construction Bureau issued a written confirmation to Nantong Dazhong Gas which provided, among other things, that:

- as of the date of the confirmation, Nantong Urban and Suburb Construction Bureau was still in the process of discussing and implementing regulatory procedures pursuant to which concession agreements can be entered into with Nantong Dazhong Gas and its subsidiaries;
- the legality of the piped gas supply business operated by Nantong Dazhong Gas and its subsidiaries would not be affected by the lack of a concession agreement;
- the piped gas supply business operated by Nantong Dazhong Gas and its subsidiaries since 2012 have been in compliance with the national and local rules and regulations; and
- the competent government authorities did not impose penalty or sanction against Nantong Dazhong Gas or its subsidiaries due to a breach of relevant laws or rules and regulations.

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We are advised by our PRC legal advisers that:

- we have legally obtained the Gas Operation Permit and have the requisite regulatory qualification to conduct gas supply business in Nantong Area;
- Nantong Urban and Suburb Construction Bureau is the competent government authority to regulate the gas supply industry in Nantong Area and issue the confirmation in relation to the legality of the gas supply operations of Nantong Dazhong Gas and its subsidiaries; and
- Nantong Dazhong Gas and its subsidiaries will not be disqualified for its gas supply operation or be subject to sanction for their gas supply operations in Nantong Area due to the fact that it is not a party to a signed concession agreement.

Our Directors confirm that there is no material development in the concession right situation in Nantong Area from December 31, 2015 till the Latest Practicable Date.

Pipeline Construction

We deliver piped gas received from city gateway stations through our proprietary underground gas pipeline network to end users' pipelines. As of June 30, 2016, we owned approximately 6,325 and 1,900 kilometers underground pipelines in South Puxi Area and Nantong Area, respectively. We also operate proprietary gas pressure control stations along our pipeline network through which we adjust gas pressure to the level fit for delivery into end-user pipelines.

Procurement of construction projects

We undertake pipeline construction based on end user needs or government urban planning. We generally engage third-party construction companies for large-scale pipeline construction projects. Property developers of residential buildings and owners or occupants of industrial and commercial premises generally approach us and submit requests for construction and installation of pipeline connecting to their properties in our operating area. After our assessment and upon formal acceptance of the requests submitted to us, we will enter into a pipeline installation contract with the property developer, industrial or commercial users. The construction for residential property is usually arranged by the property developer for the individual residential unit owners. The property developers contract with us to construct, install and connect pipelines to the individual residential units prior to occupation of the units. We commence the construction of new pipelines after obtaining the necessary approval from the relevant authorities. With respect to the construction for non-residential end users, we charge individually negotiated construction fees which are recognized as revenue based on stages or percentages of completion of the particular projects. With respect to the construction for residential end users, we charge each new residential end user, either directly or indirectly through property developers, a one-time gas connection fee, which is recorded as deferred

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revenue and recognized as revenue from gas connection proportionally over a period of 10 years on a linear basis, pursuant to the relevant government rules and regulations. For more details, please refer to the section “Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Piped gas supply”.

Construction project management

The first stage of construction of new pipelines is pipeline design, which we outsource to professional pipeline design companies with requisite qualifications.

We perform certain small-scale pipeline construction and conversion works in Nantong Area through a subsidiary but we generally outsource large-scale pipeline construction in Shanghai and Nantong Area to independent third-party professional subcontractors with requisite qualifications. The sub-contractors we engaged must have relevant licenses and permits for gas pipeline construction. We generally select third-party subcontractors in Shanghai from a list of qualified constructors. We have established long-term strategic relationship with certain subcontractors. The subcontracting fees are individually negotiated and project-specific, and generally in line with market standards. We oversee the project to ensure that the construction of the pipelines is carried out in accordance with all the relevant standards and regulations. The construction is also supervised by third-party professional supervision companies we engage, in addition to our own on-site supervision engineers.

We typically enter into sub-contracting agreements with the construction companies we engaged. The agreement provides, among other things, that:

- price and payment method of the construction project;
- construction commencement and target completion date;
- construction quality and safety requirement;
- inspection procedure prior to transfer of project;
- contractor’s undertaking not to subcontract or illegally outsource the project to third parties; and
- events of default, including failure to meet completion date or quality requirement, and remedies.

Upon completion of the construction, we perform quality inspection pursuant to the sub-contracting agreement before acknowledging the completion of the project.

After construction is completed, the construction sub-contractor is also responsible for the maintenance of the pipelines during the warranty period as set forth in the sub-contracting agreements.

Piped Gas Procurement

Piped gas suppliers

Piped gas supplier in Shanghai

Shanghai Gas Group is our sole supplier for piped gas in Shanghai. Shanghai Gas Group is also a 50% equity interest holder of Shanghai Dazhong Gas and a minority shareholder of our Company. Announcements regarding our purchases of piped gas from Shanghai Gas Group have been made pursuant to the Listing Rules of Shanghai Stock Exchange (上海證券交易所股票上市規則) during the Track Record Period. Our independent Directors have confirmed in such announcements that, (i) purchases of piped gas from Shanghai Gas Group are essential to the production of Shanghai Dazhong Gas, (ii) purchase prices are determined in accordance with guidance promulgated by the relevant government authorities, and (iii) such purchases are transparent, fair and reasonable.

Procurement of piped gas is governed by the Notice on the Establishment of the Regulatory Scheme for Piped Gas Price Adjustment and Revenue Allocation in Shanghai (關於本市建立燃氣調價收入分配監管機制的通知) jointly promulgated by Shanghai Construction Administration, Shanghai Price Bureau and Shanghai Finance Bureau in December 2006, which provides that Shanghai Gas Group shall procure piped coal gas and natural gas and sell to all piped gas suppliers in Shanghai, including Shanghai Dazhong Gas, and the procurement prices shall be determined and the payment settlement shall be made in the same manner for all suppliers pursuant to the relevant government regulations and procedures. In addition, our supplier/buyer relationship with Shanghai Gas Group is governed by the Shanghai Gas Administrative Measures (上海市燃氣管理條例) promulgated by Shanghai People's Congress in 1999 and amended in 2010, which provides that Shanghai Gas Group as an upstream gas supplier bears certain obligations to us and our end users, including:

- gas suppliers shall ensure uninterrupted, stable and safe gas supply to end users, and shall not unilaterally suspend operations, shut down gas supply stations or reduce gas supply pressure;
- any dispute between gas suppliers in relation to gas production and supply that could potentially affect gas supply to end users shall be resolved through negotiation under the mediation of the district or county government authorities, and shall not cause any disruption of gas supply to end users; and
- gas suppliers should not unilaterally suspend gas supply or reduce gas supply pressures, unless otherwise agreed with individual non-residential end users.

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We are advised by our PRC legal advisers that such relevant regulations are applicable to and enforceable against Shanghai Gas Group and us. In addition, our Directors believe that our long-term relationship with Shanghai Gas Group provides further guarantee of secured natural gas supply for us in Shanghai. To the best knowledge of our Directors, in our over 15 years of piped gas supply operations we have not experienced any disruption of gas supply.

Shanghai Dazhong Gas entered into a framework gas purchase agreement in December 2015 with Shanghai Gas Group. The framework gas purchase agreement is based on the standard form gas procurement agreement generally used by Shanghai Gas Group. The table below sets forth the key terms of the framework agreement.

Term of supply	From January 1, 2014 to December 31, 2033
Specified annual supply volume	Specified annual supply volume of natural gas for each five-year period will be set out in a supplemental supply agreement.
Maximum annual supply volume	Specified annual supply volume x 105%
Maximum daily supply volume	Specified annual supply volume/365 x adjustment factor for each month
Minimum purchase volume	We agree to pay for the minimum purchase volume each year, even if it is greater than the actual volume of piped gas we procured. The minimum purchase volume is set at 90% of the specified annual supply volume.
Variance from maximum daily supply volume	We shall confirm with Shanghai Gas Group on the daily purchase volume on the date before. If the actual purchase volume on the date falls short of 95% of the maximum daily supply volume or exceeds the maximum daily supply volume, we agree to make an additional payment which is 10% of the procurement cost for the shortfall or excess volume.
Excess over maximum annual supply volume	If the actual volume we purchased for a year exceeds the maximum annual supply volume, we agree to make an additional payment which is 30% of the procurement cost for the excess volume.

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Purchase price	Purchase price shall be set by the competent government authorities in Shanghai.
Supply shortage	If the actual volume supplied to us is lower than the relevant volume requested by us, Shanghai Gas Group agrees to pay us an amount which is 10% of the procurement cost for the annual supply shortage.
Supply quality	We have the right to reject piped gas that does not meet the relevant quality standards.
Payment terms	We should make a prepayment at the middle of a month based on volume of natural gas used by residential and non-residential users in the first half of the month. Within three days of the beginning of the subsequent month, Shanghai Gas Group will send us a gas purchase statement to set forth various volume and cost related information and we shall make payment within three days of the receipt of the statement.
Late fee	For any amount past due, we or Shanghai Gas Group, as applicable, shall pay a daily interest that equals 150% of the prevalent PBOC interest rate for commercial loans, from the date the amount became due to the date it is paid in full.
Termination	Shanghai Gas Group has the right to terminate the agreement under certain circumstances, including: breaches of the agreement by us which is not remedied within 30 days upon the receipt of a notice of breach from Shanghai Gas Group, our failure to make payment due over 30 days, and any bankruptcy or liquidation procedure initiated against us.

The framework gas purchase agreement sets forth certain obligations for us such as late fee and volume-based additional payment which did not exist in our historical transactions with Shanghai Gas Group. For example, the framework gas procurement agreement provides that we shall make payment within three days of the receipt of the monthly gas purchase statement and Shanghai Gas Group shall be entitled to late fee on delay of such payment. In practice, the average turnover days of our trade payables due to Shanghai Gas Group was approximately 96 days, 130 days and 132 days in 2013, 2014 and 2015, respectively. During the Track Record

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Period and up to the Latest Practicable Date, Shanghai Gas Group had not demanded any late fee or volume-based additional payment from us. Nevertheless, our Directors confirm that based on their experience and to the best of their knowledge:

- The framework gas purchase agreement is based on a standard form agreement commonly used in the piped gas supply industry which does not provide for certain key volume and price information. As such, it is difficult to enforce the relevant volume-based payment obligations pursuant to the terms of the standard form agreement by itself without reference to a supplemental agreement, which is typically entered into by the relevant parties on an annual basis.
- It is market practice in Shanghai for upstream piped gas suppliers and downstream purchasers to enter into a standard form agreement without key volume and price information, and in practice the upstream piped gas suppliers generally do not strictly or consistently enforce the relevant late fee or volume-based additional fee obligations against downstream purchasers due to the inherent seasonality and fluctuation of gas consumption volume.
- During the Track Record Period and up to the Latest Practicable Date, we made payments pursuant to the monthly gas purchase statements issued by Shanghai Gas Group to us. Shanghai Gas Group accepted our general practice of making payment approximately three to four months after we received the monthly statements, as we estimate we generally receive payment three months after we supplied the piped gas to residential end users. For more details, please refer to the section “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade and Bills Payables”. Our Directors confirm that such payment cycle between Shanghai Dazhong Gas and Shanghai Gas Group is generally in line with market practice in Shanghai.
- During the Track Record Period and up to the Latest Practicable Date, Shanghai Gas Group maintained the practice of confirming our trade payables due to Shanghai Gas Group on a monthly basis in the monthly gas purchase statement and the late fee and volume-based additional fees were specified as nil in such statements, meaning Shanghai Gas Group would not demand any late fee for outstanding trade payables or volume-based additional fee prior to the dates of the monthly statements.
- After the execution of the framework gas purchase agreement and up to the Latest Practicable Date, Shanghai Gas Group had not made any attempt or demonstrated any intention to enforce the provisions relating to late fee or volume-based additional payment obligations. The average turnover days of our trade payables due to Shanghai Gas Group was approximately 116 days for the six months ended June 30, 2016.

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We are advised by our PRC legal advisers that (i) Shanghai Gas Group is under a legal obligation to ensure uninterrupted, stable and safe gas supply to us pursuant to the Shanghai Gas Administrative Measures (上海市燃氣管理條例) and cannot unilaterally suspend operations, shut down gas supply stations or reduce gas supply pressure to Shanghai Dazhong Gas, even if there is a dispute between Shanghai Gas Group and us; (ii) any late fee or additional volume-based payment should only be applied from December 16, 2015, the date of the execution of the framework gas purchase agreement, as the framework gas purchase agreement specifically provides that it shall become effective upon execution; (iii) transactions took place prior to December 16, 2015 were not governed by the framework gas purchase agreement and we did not owe any late fee or volume-based additional fee prior to December 16, 2015, as confirmed by the relevant monthly gas purchase statements issued to us by Shanghai Gas Group; and (iv) a de facto amendment to the relevant provisions related to billing and payment in the framework gas purchase agreement can be construed based on the facts, among other things, that Shanghai Gas Group (a) issued the monthly statements specifying late fee and volume-based additional fee as nil each month from December 16, 2015 to the Latest Practicable Date, which continued the established practice and did not strictly follow the relevant provisions of the framework gas purchase agreement after it became effective; and (b) had not made any attempt or demonstrated any intention to strictly enforce the relevant provisions. As a result, we are advised by our PRC legal advisers that even if Shanghai Gas Group requires us to change the established billing and payment practice and strictly follow the relevant provisions related to billing and payment in the framework gas purchase agreement, it will not have any material adverse effect on our operations. Our trade payables due to Shanghai Gas Group was RMB1,155.6 million as of October 9, 2016, being the date of the latest monthly statement received from Shanghai Gas Group, which specified the late fee and volume-based additional fee as nil, as an indication that Shanghai Gas Group will not demand any late fee for trade payables or volume-based additional fee for transactions which took place prior to October 9, 2016. The Directors believe that, based on past dealings and the long-term cooperative relationship between the Group and Shanghai Gas Group, it is unlikely for Shanghai Gas Group to change the established payment practice and strictly enforce the provisions relating to late fee and volume-based additional payment in the foreseeable future. Nevertheless, the Directors made an approximate estimation of potential late fee based on (i) the amount of trade payables specified in the latest monthly statement and (ii) financial resources available to the Group. The Directors concluded, and the Joint Sponsors concur, that payment of such estimated potential late fee would not have a material adverse effect on the Group's overall financial position and results of operation. In addition, the Company undertakes to Shanghai Dazhong Gas that the Company will assist Shanghai Dazhong Gas to settle the full amount of the outstanding trade payables due to Shanghai Gas Group upon demand. In addition, the Directors believe, and the Joint Sponsors concur, based on (i) historical outstanding trade payables due to Shanghai Gas Group; (ii) financial resources available to the Group and (iii) certain other assumptions such as no material changes in procurement and supply volume and prices, that Shanghai Dazhong Gas will be able to make timely payments of trade payables due to Shanghai Gas Group on a monthly basis if the Group opts to do so going forward. As such, the Directors conclude, and the Joint Sponsors concur, that even if Shanghai

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Gas Group starts to strictly enforce late fee or additional volume-based payment obligations, it will not have any material adverse effect on our operations.

We also entered into a supplemental agreement to the framework gas purchase agreement in December 2015, which sets forth an annual supply volume and other volume based parameters for the period from 2014 to 2018. The actual volume of natural gas purchased by Shanghai Dazhong Gas in 2014 and 2015 exceeded the minimum purchase volume set out in the supplemental agreement.

Piped gas supplier in Nantong Area

We procure our piped gas in Nantong Area from CNPC. We entered into a framework gas purchase agreement in July 2011 and typically enter into a supplemental agreement on an annual basis with CNPC to govern additional terms and conditions of our purchases of piped natural gas. The table below set forth the key terms of such framework gas purchase agreement:

Term of supply	From July 2011 to December 2023
Specified annual supply volume	The specified annual volume of natural gas to be purchased by us during the term of the agreement.
Minimum purchase volume	We agree to pay for the minimum purchase volume each year, even if it is greater than the actual volume of piped gas we procured. The guaranteed minimum volume is initially set at 90% of the specified annual supply volume.
Daily purchase volume	We shall confirm with CNPC on the daily purchase volume on the date before. If the actual procurement volume on the date falls short of 90% of the daily purchase volume for more than 4 days in a month, we agree to make an additional payment which is 15% of the procurement cost for the shortfall volume for that month.
Supply volume and unit price	The volume percentage of natural gas to be supplied to residential and non-residential users. The unit procurement prices for residential and non-residential end users should be set with reference to the relevant regulations promulgated by NDRC.

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Payment terms	The supplier will send us a gas purchase confirmation to set forth various volume and cost related information on a weekly basis and we shall make payment on the next day following the receipt of such weekly confirmations.
Late fee	For any amount past due, we shall pay a daily interest that equals 150% of the prevalent PBOC interest rate for commercial loans, from the date the amount became due to the date it is paid in full.
Termination	CNPC has the right to terminate the agreement under certain circumstances, including: breaches of the agreement by us which is not remedied within 30 days upon the receipt of a notice of breach from CNPC, our failure to make payment due over 30 days, and any bankruptcy or liquidation procedure initiated against us.

The annual supplemental agreements set forth amendments to the framework agreement, which generally include target purchase volume and unit price, if any. The actual volume of natural gas purchased by Nantong Dazhong Gas in 2014 and 2015 exceeded the minimum purchase volume set out in the supplemental supply agreement. Our trade payable due to CNPC for the purchase of piped gas was approximately nil, RMB1.2 million, RMB0.8 million and nil as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

Procurement price

The table below sets forth information in relation to our gas procurement for the periods indicated:

	Year ended December 31,						Six months ended	
	2013		2014		2015		June 30,	
	%		%		%		2016	
Procurement cost								
(RMB in million)								
Shanghai	2,342.6	89.8	2,392.1	86.3	2,462.3	87.1	1,450.2	89.2
Nantong Area	265.4	10.2	379.0	13.7	363.9	12.9	176.2	10.8
Total	2,608.0	100.0	2,771.1	100.0	2,826.2	100.0	1,626.4	100.0

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	Year ended December 31,						Six months ended	
	2013		2014		2015		June 30,	
	%	%	%	%	%	%	2016	%
Volume (million cubic meter)								
Shanghai ⁽¹⁾	1,123.4	89.6	1,057.2	86.9	1,029.9	86.2	594.8	86.1
Nantong Area ⁽²⁾	130.6	10.4	159.0	13.1	165.6	13.8	96.4	13.9
Total	1,254.0	100.0	1,216.2	100.0	1,195.5	100.0	691.2	100.0
Average procurement price (RMB/m³)⁽³⁾								
Shanghai	2.09	-	2.26	-	2.39	-	2.44	-
Nantong Area	2.03	-	2.38	-	2.20	-	1.83	-

Notes:

- (1) Including both coal gas and natural gas, and coal gas volume is converted to natural gas volume with a 2.3:1 heat value ratio. The year-on-year decreases in total volume of piped gas we procured in Shanghai during the Track Record Period were primarily due to the decreases in the volume of coal gas we procured, which had a lower heat value per unit than natural gas.
- (2) Including piped natural gas, LNG and CNG. Volume of LNG and CNG we procured accounted for 2.6%, 2.1%, 1.3% and 2.1% of total natural gas we procured in Nantong Area in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.
- (3) The average procurement price is calculated by dividing (a) procurement cost by (b) procurement volume for the period indicated.

Shanghai

In Shanghai, procurement cost was RMB2,342.6 million, RMB2,392.1 million, RMB2,462.3 million and RMB1,450.2 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 73.6%, 71.4%, 66.3% and 71.3% of our revenue of piped gas supply business generated in Shanghai. The average procurement prices in Shanghai were RMB2.09/m³, RMB2.26/m³, RMB2.39/m³ and RMB2.44/m³ in 2013, 2014 and 2015 and the six months ended June 30, 2016 respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2016, the piped gas volume we procured from Shanghai Gas Group in Shanghai was 1,123.4 million m³, 1,057.2 million m³, 1,029.9 million m³ and 594.8 million m³, respectively. The year-on-year decreases in total volume of piped gas procured in Shanghai were primarily due to a decrease in the volume of coal gas procured, which had a lower heat value per unit than natural gas. In comparison, the piped gas volume we sold to end users was 1,013.1 million m³, 954.5 million m³, 916.6 million m³ and 536.2 million m³ in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 9.8%, 9.7%, 11.0% and 9.9% volume loss during the same periods. Such volume loss is common in piped gas operations and was due to various reasons, including loss of gas due to pressure adjustment in pipelines or weather, small amount of leakage in gas pipes, discrepancy between actual volume used and

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reported by end users and stealing of gas by end users. When the local government sets piped gas procurement prices, it usually takes into consideration of certain percentage of volume loss. We are taking measures to reduce volume losses, such as testing innovative technologies which will enable remote and real time meter readings.

In Shanghai, procurement price of piped gas between Shanghai Gas Group and the distributors, including us, is set by Shanghai Construction Administration. During the Track Record Period, Shanghai Construction Administration implemented the following adjustments to the procurement prices:

- increased procurement price by RMB0.4/m³ for the natural gas supplied to non-residential users pursuant to the Notice on Adjustment of Settlement Price with Gas Sales Companies upon the Adjustment of Gas Price for Non-residential Users (上海市城鄉建設和交通委員會關於本市非居民用戶燃氣銷售價格調整後燃氣銷售企業結算價相應調整的通知), promulgated in September 2013;
- increased procurement price by RMB0.2/m³ for the natural gas supplied to residential users and RMB0.5/m³ for the natural gas supplied to non-residential users pursuant to the Notice on Adjustment of Settlement Price for Natural Gas (關於調整本市天然氣結算價格的通知), promulgated in October 2014; and
- decreased procurement price by RMB0.436/m³ for the natural gas supplied to non-residential users pursuant to the Notice on Adjustment of Settlement Price for Natural Gas (關於調整本市天然氣結算價格的通知), promulgated in December 2015.

These adjustments also make allowance of 8.0% volume loss for natural gas and coal gas, respectively, and downstream gas suppliers do not have to pay for such volume loss.

Nantong Area

In Nantong Area, procurement cost was RMB265.4 million, RMB379.0 million, RMB363.9 million and RMB176.2 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 51.8%, 62.2%, 56.5% and 51.0% of our revenue of piped gas business generated in Nantong Area. The increase in percentage from 2013 to 2014 was primarily due to a decrease in natural gas retail price to non-residential users as mandated by Nantong DRC. The average procurement price in Nantong Area was RMB2.03/m³, RMB2.38/m³, RMB2.20/m³ and RMB1.83/m³ in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2016, the gas volume we procured in Nantong Area was 130.6 million m³, 159.0 million m³, 165.6 million m³ and 96.4 million m³, respectively. In comparison, the natural gas volume we sold to end users was 124.8 million m³, 153.5 million m³, 157.6 million m³ and 96.0 million m³ in 2013, 2014 and 2015 and the six months ended June 30, 2016 representing 4.4%, 3.5%, 4.8% and 0.4% volume loss during the same periods. Volume loss is generally lower in Nantong Area than in Shanghai due to various reasons, such as the average gas pressure in pipelines in Nantong Area is generally higher than in Shanghai and the total length of pipeline and the number of end users are higher in Shanghai than in Nantong Area.

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In Nantong Area, our procurement price of piped gas is negotiated with the upstream piped gas supplier pursuant to the gateway station prices set forth by NDRC from time to time. During the Track Record Period, NDRC implemented the following adjustments to the gateway station prices:

- increased the maximum gateway station price of reserved natural gas and incremental natural gas for non-residential users to RMB2.42/m³ and RMB3.30/m³, respectively, pursuant to the Notice on Adjustment of Natural Gas Price (國家發展改革委關於調整天然氣價格的通知), promulgated in June 2013;
- increased the maximum gateway station price of reserved natural gas for non-residential users to RMB2.82/m³ pursuant to the Notice on Adjustment of Price of Reserved Natural Gas for Non-residential Users (國家發展改革委關於調整非居民用存量天然氣價格的通知), promulgated in August 2014;
- set the maximum gateway station price of natural gas for non-residential users to RMB2.86/m³, and prices of reserved natural gas and incremental natural gas were merged pursuant to the Notice on Rationalizing Prices of Natural Gas Used by Non-Residential Users (國家發展改革委關於理順非居民用天然氣價格的通知), promulgated in February 2015; and
- decreased gateway station price of natural gas for non-residential users to RMB2.16/m³ and replaced the maximum gateway station price of natural gas mechanism with the benchmark gateway station price mechanism, under which the procurement price can be negotiated within the range of 20% based on the benchmark gateway station prices, pursuant to the Notice on Lowering the Price at Gateway Stations for Natural Gas Used by Non-Residential Users and Further Promoting Price Marketisation Reform (國家發改委關於降低非居民天然氣門站價格並進一步推進價格市場化改革的通知), promulgated in November 2015.

We also procure a small amount of LNG and CNG from third party suppliers and sell it to end users in Nantong Area. Volume of LNG and CNG we procured accounted for 2.6%, 2.1%, 1.3% and 2.1% of total natural gas we procured in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Cost incurred for procuring LNG and CNG accounted for 5.2%, 4.5%, 2.4% and 2.9% of the total gas procurement cost for the respective periods in Nantong Area.

Inventory

We transmit piped gas procured from upstream suppliers to our end users directly, as such we record insignificant amount of piped gas as inventory on any given date. Our inventory of natural gas business consists mainly of components for pipeline construction, repair and maintenance, such as pipes, meters and other related equipment.

Internal Control and Safety Measures

To guarantee safety and smooth operations of our natural gas supply, we have implemented a series of internal control and safety measures. As of June 30, 2016, we had a team of 1,096 engineers, technicians and other staff who are dedicated to safety and maintenance.

We have established strict quality control standards on various aspects of our gas supply, pipeline construction and connection, facilities repair and maintenance. We have implemented a safety monitoring system along our pipeline network for detection of any leakage or other gas incident.

We make reference to and comply with the relevant government regulations when we implement our safety measures. We have taken the following measures to ensure gas safety and normal supply:

- established measures and systems as required by the relevant laws and regulations, including safety checking, fixing and maintenance, timely reporting of malfunctions and accidents of the gas facilities, emergency repairs and other measures and systems;
- established and implemented the 24-hour watch system to monitor any possible gas accidents;
- established rules to conduct regular training on gas safety to periodically train our pool of qualified professional management and technical personnel;
- established safety rules on gas usage for end users and provide educational publicity and instructions on common knowledge gas usage for the end-users; and
- perform free safety inspection for end users periodically and give improvement advice.

To the best knowledge of our Directors, we did not have any material safety incident in our piped gas business during the Track Record Period.

In addition, in response to the competent People's Court's bribery charges against six mid-level managers at Nantong Dazhong Gas in 2014, we have enhanced (a) our Group's policies and procedures concerning internal monitoring and employee integrity, and (b) the relevant subsidiary's policies and procedures concerning (i) tendering process for construction and procurement, (ii) procurement process of raw materials, (iii) auditing on the costing of construction projects, and (iv) final inspection process for construction projects. We engaged, BDO Financial Services Limited, an independent internal control consultant to review the relevant internal controls implemented. According to the review report of BDO Financial

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Services Limited dated November 8, 2015, the relevant internal controls were adequate and effective in all material aspects as of September 18, 2015, being the date of their engagement letter. We are advised by our PRC legal advisers that we are not subject to any material charge or penalty of the above bribery charge against employees of Nantong Dazhong Gas.

Wastewater Treatment Operations

We commenced our wastewater treatment business in 2003 in Xiaoshan District, Hangzhou City, Zhejiang Province through a BT arrangement with the local government. The Xiaoshan project is currently in its repurchase period and we are no longer involved in its operation. In 2005, we acquired the Jiading wastewater treatment plant in Jiading District, Shanghai. In 2010, we further expanded our operations to Xuzhou Area. The table below sets forth contractual terms of wastewater treatment plants we operated under BOT or TOT arrangement as of June 30, 2016:

	Shanghai Project		Xuzhou Project						
	Jiading ⁽²⁾		Sanbahe		Jiawang ⁽³⁾	Peixian		Pizhou ⁽³⁾	Lianyungang
Phase	Phase I and II	Phase III	Phase I	Phase II	Phase I	Phase I	Phase II	Phase I	
Contract type	BOT	BOT	BOT	BOT	BOT	BOT	BOT	TOT	BOT
Concession period (years)	30	20	25	25	28	30	30	30	26
End of concession period	2036	2036	2028	2036	2034	2035	2038	2034	2032
Initial contract date	July	March	March	December	March	May	May	November	July
Unit treatment price (RMB/m ³)	2006	2016	2003	2010	2005	2005	2008	2004	2004
Unit treatment price (RMB/m ³)	1.21	1.69	1.00	1.00	1.08	0.96	0.96	1.19	1.07
Water quality requirement (Class) ⁽¹⁾	II	I	I	I	I & II	I & II	I	I	II
Designed capacity (m ³ /day)	100,000	75,000	30,000	40,000	20,000	25,000	25,000	20,000	20,000

Notes:

- (1) As defined in Urban Wastewater Treatment Plant Discharge Standards (城鎮污水處理廠污染物排放標準) (GB18918-2002).
- (2) Under the BOT agreement with Jiading District Water Authority in March 2016, at the expiration of the concession agreement, we will retain ownership of assets under Phase I of the plant but transfer assets under Phases II and III of the plant to Jiading District Water Authority.
- (3) In July 2016, we disposed of 51% of equity interests in Xuzhou Fountainhead Sewage and Pizhou Fountainhead Water, which operate the Jiawang plant and Pizhou plant, respectively. For more details, please refer to “History, Development and Corporate Structure — History and Development — Disposals after June 30, 2016”.

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The table below sets forth the total wastewater treatment volume and average utilization rate based on the designed capacity of our wastewater treatment plants for the periods indicated:

	Year ended December 31,									Six months ended June 30,		
	2013			2014			2015			2016		
	<i>Designed volume (m³'000)</i>	<i>Actual volume (m³'000)</i>	<i>%⁽¹⁾</i>	<i>Designed volume (m³'000)</i>	<i>Actual volume (m³'000)</i>	<i>%⁽¹⁾</i>	<i>Designed volume (m³'000)</i>	<i>Actual volume (m³'000)</i>	<i>%⁽¹⁾</i>	<i>Designed volume (m³'000)</i>	<i>Actual volume (m³'000)</i>	<i>%⁽¹⁾</i>
Shanghai												
Project	36,500	48,847	133.8	36,500	49,065	134.4	36,500	42,238	115.7	41,825	34,810	83.2
Xuzhou												
Projects												
Sanbahe	22,270	20,426	91.7	23,730	24,170	101.9	24,826	27,043	108.9	12,740	13,837	108.6
Peixian	17,873	16,032	89.7	18,250	18,120	99.3	18,250	17,076	93.6	9,100	8,590	94.4
Jiawang ⁽²⁾	7,300	6,831	93.6	7,300	7,406	101.5	7,300	7,157	98.0	3,640	3,416	93.9
Pizhou ⁽²⁾	7,300	6,445	88.3	7,300	6,995	95.8	7,300	7,210	98.8	3,640	3,508	96.4
Lianyungang	7,300	7,140	97.8	7,300	7,367	100.9	7,300	7,378	101.1	3,640	3,482	95.7
Total	98,543	105,721	107.3	100,380	113,123	112.7	101,476	108,102	106.5	74,585	67,643	90.7

Note:

- (1) Utilization rate is calculated by dividing actual treatment volume by the designed capacity for the period indicated.
- (2) In July 2016, we disposed of 51% of our equity interests in Xuzhou Fountainhead Sewage and Pizhou Fountainhead Water, which operate the Jiawang plant and Pizhou plant, respectively. For more details, please refer to "History, Development and Corporate Structure — Strategic Historical Acquisitions — Disposals after June 30, 2016".

During the Track Record Period, volume processed by certain wastewater treatment plants exceeded their respective designed capacity. In general, the actual processing capacities of our wastewater treatment plants are higher than their respective designed capacities as provided in their concession agreements, as certain level of buffer has been provided for in order to ensure continuous normal operations during the short periods in which wastewater supplied to the plants exceed the designed capacity.

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Revenue from our wastewater treatment operations accounted for 4.3%, 4.0%, 3.2% and 3.7% of our total revenue in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The table below sets forth revenue contribution from our wastewater treatment projects for the indicated periods:

	Year ended December 31,						Six months ended	
	2013		2014		2015		June 30,	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Shanghai Project	71,277	42.6	64,182	38.6	50,379	34.0	48,796	51.9
Xuzhou Projects	56,506	33.8	63,998	38.4	61,872	41.7	28,875	30.7
Xiaoshan Project	39,511	23.6	38,191	23.0	36,005	24.3	16,397	17.4
Total	167,294	100.0	166,371	100.0	148,256	100.0	94,068	100.0

Wastewater Treatment Projects

Shanghai Project

We acquired the Jiading wastewater treatment plant in 2005 through a public bidding process arranged by Jiading District Water Authority (嘉定水務局). The designed treatment capacity of the plant at the time of our acquisition was 50,000 m³/day. We built Phase II of the plant in 2007, which increased the treatment capacity to 100,000 m³/day. As demand for water processing further increased, we built Phase III of the plant in 2015 and officially commenced operation of Phase III of the plant in March 2016, which further increased its treatment capacity to 175,000 m³/day.

In July 2006, we entered into a Wastewater Treatment Service Agreement with Jiading District Water Authority, which provided service terms of Phase I and Phase II of the plant. Upon completion of construction of Phase III of the plant, we entered into a BOT agreement with Jiading District Water Authority in March 2016, which provides that at the expiration of the concession agreement, we will retain ownership of assets under Phase I of the plant and transfer assets under Phases II and III of the plant to Jiading District Water Authority.

To the best knowledge of our Directors, in nearly 10 years of operations, the Jiading wastewater treatment plant has not had a major environment pollution incident.

Xuzhou Projects

We decided to expand our wastewater treatment operation to Xuzhou Area as it is a strategic location in the government's plan to divert water source in Southern China to supply Northern China, and as a result the local government closely monitors local water quality.

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We acquired 70% of the equity interest in Xuzhou Yuanquan Environment Protection Projects Co. Ltd. (徐州源泉環保工程有限公司) (which subsequently changed its name to Jiangsu Dazhong Water in May 2013) from existing shareholders in February 2010 and increased our equity interest to 80% in May 2012. At the time of our acquisition in 2010, Jiangsu Dazhong Water operated five wastewater treatment plants in Peixian, Pizhou, Jiawang, Sanbahe and Lianyungang. All five plants were in their concession periods at the time of our acquisition. We are advised by our PRC legal advisers that our acquisition of the controlling equity interest did not affect the validity of the relevant concession agreements and the plants in our Xuzhou projects continued to operate with valid concession rights granted to such plants in the concession agreements. After our acquisition, we implemented various measures to improve internal control of the company.

In July 2016, we disposed of 51% of our equity interests in Xuzhou Fountainhead Sewage and Pizhou Fountainhead Water, which operate the Jiawang plant and Pizhou plant, respectively. For more details, please refer to “History, Development and Corporate Structure — Strategic Historical Acquisitions — Disposals after June 30, 2016”.

As our wastewater treatment plants in Xuzhou Area are currently all operating near or over their respective design capacity, we plan to undertake several expansion and/or renovation projects for these plants in the next few years.

Xiaoshan Project

The construction of the wastewater treatment plant in Xiaoshan District, Hangzhou City, Zhejiang Province was completed in December 2006 pursuant to a BT arrangement between us and the local government.

We made a total investment of RMB616.3 million and engaged a third party construction company for the construction of the Xiaoshan plant. The wastewater treatment plant is currently in its repurchase period. As of June 30, 2016, the un-recovered investment amount of the Xiaoshan project was RMB488.0 million.

During the Track Record Period, we tendered a total of three bids for wastewater treatment projects in Nanjing and Dalian, but we did not win any of the bids.

Business model

We engage in wastewater treatment business primarily through BOT arrangements with local governments in Shanghai and Xuzhou Area. We also have a TOT arrangement in Pizhou and a BT arrangement in Xiaoshan with the local governments for the relevant wastewater treatment plant.

BOT arrangements

Our Jiading plant and four plants in our Xuzhou Project, namely, the Sanbahe, Jiawang, Peixian and Lianyungang plants, are operated under BOT agreements with local governments, we are entitled to operate the plants for a concession period in exchange for service fees

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payable to us by the relevant local governments. After the concession period is over, we are required to transfer the ownership of the plant to the relevant local government free of consideration, unless we enter into a new BOT arrangement with such local government.

The fees we receive during the concession periods are based on the treatment volume and the unit price. We generally request and receive payment of concession fees monthly from the relevant local governments.

Our BOT agreements with the relevant local governments generally include the following key provisions, among other things:

Grant of concession rights, which set forth the grant of the concession rights to us for the projects by the competent government authorities.

Land use right, which provides that the local government shall transfer the land use rights to us or allow us to use the land use rights for certain or no consideration during the concession period. In addition, the local government generally agree to assist us in completing the process for the transfer of land use rights to us and the procurement of relevant certificates.

Concession period related matters, which set forth contract terms, commencement and end of concession period. We begin to receive regular fee payments from the local governments upon the commencement of the commercial operation of the wastewater treatment.

Construction and inspection, which sets forth our responsibility to fund and oversee the construction of the treatment plant and to ensure the constructed plant pass the relevant testing and quality inspection before the agreed-upon deadlines.

Treatment related parameters, which set forth various parameters of the wastewater treatment, including quality requirement of wastewater directed to the plant and quality requirement of the discharged water.

Fee arrangement, which sets forth the initial unit treatment price, calculation methods for fees, and formula for price adjustment. The fee calculation methods are based on treatment volume and agreed-upon unit prices. The formula for fee adjustment usually takes into considerations parameters such as electricity and material cost, labor cost, and tax. The concession agreements also generally provide that the unit price shall be adjusted every three to five years. The local government generally shall make a portion of the payment to us on a monthly basis and make up the difference in payment due at year end.

Defaults and remedies, which set forth remedial measures in the event of default, such as our failure to meet the quality requirement for discharged water, or our customers' obligation to make regular payments.

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Transfer, which sets forth procedures and quality requirements for the transfer of the plants to the local governments upon expiration of the concession periods for nil consideration.

Termination, which sets forth condition under which parties have the right to terminate the contract, including force majeure, change of applicable laws and regulations and material breach of obligations. For example, the local governments generally have the right to terminate the contracts if we fail to make the committed investment in construction and maintenance or in the event of material water quality related incidents.

TOT arrangements for the Pizhou plant

The TOT agreement for the Pizhou plant was originally entered into between Pizhou City Government (邳州市人民政府) and Xuzhou Yuanquan Environment Protection Engineering Co. Ltd. in November 2004. Pursuant to the TOT agreement, the local government granted us a concession right to operate the plant exclusively during the concession period, at the end of which we shall transfer the plant to the local government for nil consideration. Following our commencement of the operation of the plant, we began to receive regular fee payments from the local government based on the service fee schedule specified in the agreement.

The TOT agreement has similar or comparable key terms with the BOT agreements, in terms of the grant of concession rights, land use right during concession period, wastewater treatment parameters, fee arrangement, defaults and remedies, and termination provisions.

BT arrangement for the Xiaoshan plant

We entered into the BT agreement with Xiaoshan District Construction Bureau in September 2003 for the construction of the Xiaoshan wastewater treatment plant. The BT agreement provides, among other things:

Land use rights: Xiaoshan District Construction Bureau is responsible for assisting us to obtain the land use rights for the plant during the construction and concession period.

Repurchase period: the repurchase period was 25 years from the date of transfer of the plant.

Tariff: Xiaoshan District Construction Bureau undertakes to pay 7.5% annual interest on our investment, and subject to adjustment and subsidy.

We transferred the plant to Xiaoshan District Construction Bureau in December 2006.

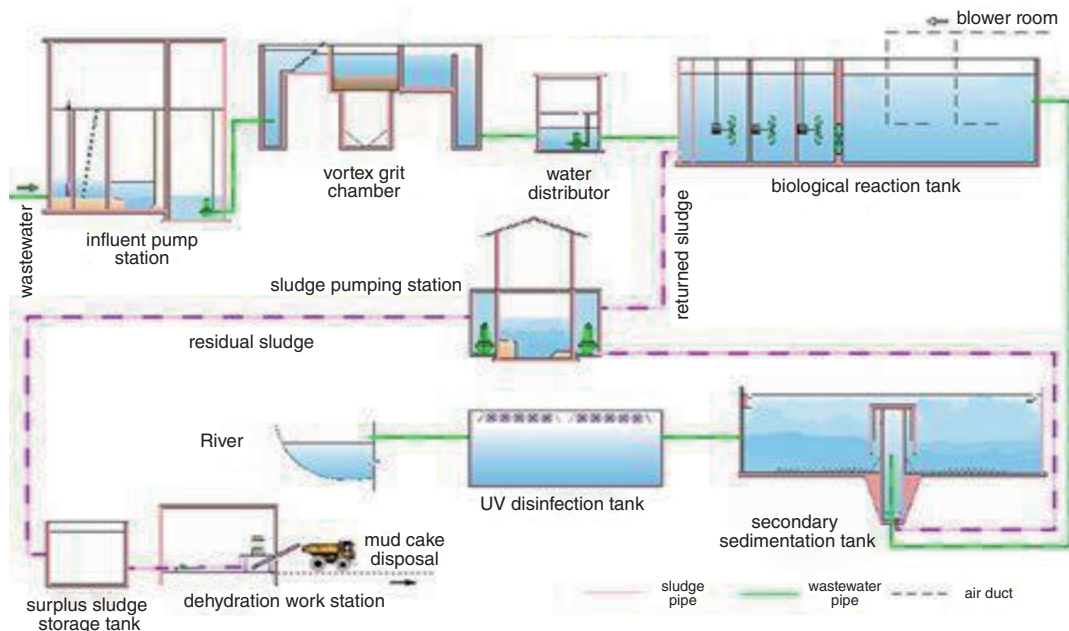
Treatment process

Our wastewater treatment facilities treat and discharge wastewater in compliance with the relevant national and local standards.

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In Jiading District and Xuzhou Area, our wastewater treatment plants focus on the treatment of municipal wastewater. Municipal wastewater mainly consists of residential wastewater, with a small portion of wastewater discharged by non-residential users such as commercial and industrial users. Municipal wastewater usually contains phosphorus and organic matter and is collected and carried through a municipal pipeline network constructed and owned by the local governments to wastewater treatment plants for treatment. Both residential and non-residential wastewater is required to meet the Municipal Wastewater Discharge Standard before being discharged to a municipal pipeline network or river. In Xiaoshan District, Hangzhou City, our wastewater plants mainly treat non-residential wastewater from local industrial enterprises, which, as opposed to residential wastewater, requires more sophisticated facilities and technologies.

The diagram below illustrates the major steps in our treatment of municipal wastewater:



Our treatment process generally involves a series of physical, biological and chemical methodologies, after which the water is separated from sludge before being discharged.

The incoming wastewater is first transferred or pumped through the coarse screen and fine screen, which remove larger particles such as paper, hair, rags, sticks and other debris. Then, the wastewater passes through the grit chamber which removes fine suspended solids. After the grit chamber, the pre-treated wastewater enters into the biological reaction tank for biological treatment with a blower to add oxygen through an aeration process, and then enters into the final sedimentation tank for sludge-water separations. The biologically treated wastewater is disinfected with chemicals before discharging to the environment.

The surplus sludge which is produced during the treatment is stored in the sludge storage tank for mechanical dewatering and disposal according to the Urban Wastewater Treatment Plant Discharge Standard (GB18918-2002). The core technology of the biological treatment

stage is activated sludge technology, which is a process for treating wastewater through creating artificial aerobic and anaerobic environment in which bacteria and protozoa can be cultured to purify wastewater. The local government in Jiading has decided to construct a new sludge processing facility for the Jiading plant with government funding. Construction is currently underway and commencement of operation of this new facility is expected in the second half of 2017.

Project design, construction and inspection

During the Track Record Period, we commenced and completed the construction of Phase III of the Jiading plant.

We generally outsource design and construction of wastewater treatment plants to qualified third-party professional contractors. We hire qualified third-party professionals, usually through a public bidding process, to design the project implementation plans. The local government and we also participate in the design.

To commence the construction of a wastewater treatment plant, we need to obtain certain approvals and permits, including environment appraisal report, approval for use of property and construction work permit. Due to the complexity of the construction of wastewater treatment facilities, we engage third-party professional contractors, usually through a public bidding process, for the construction of wastewater treatment facilities and the installation, testing and commissioning of the necessary equipment and systems for such treatment facilities according to the detailed project implementation plan. During the construction process, we supervise the contractors' construction work, principally through our project manager. The principal building materials used for the construction of wastewater treatment facilities, such as cement, steel, cable and pipelines, are usually provided or procured by the construction contractors themselves. The cost of these materials usually included in our contractors' project proposals and therefore, the risk of fluctuation of the costs of such raw materials is generally borne by the contractors.

Upon completion of the construction, we will test, inspect and commission the systems to ensure that they operate in accordance with our customer's requirements and the terms of our project agreements. Commissioning the facilities involves a procedure encompassing the examination of the equipment and pipeline network, as well as their integration into a fully functioning system. Once we complete this testing process, we normally give a notice to the relevant authority to inspect the facility. After passing the inspection by the relevant authority, we normally apply to the relevant environmental authority to commence trial operation of the facility. We are generally required to conduct trial operations and obtain the local environmental protection department's approval before a plant can officially commence operation. Before the commencement of commercial operations, the local environmental protection department will carry out an assessment of the quality of the treated wastewater and we can commence operation if the relevant quality standards are satisfied.

Payment arrangement and price adjustment

The tariff payment for wastewater treatment under BOT or TOT arrangements is generally calculated by multiplying the volume of water treated by the unit price as set forth in the relevant concession agreements. In terms of fee calculations for our wastewater treatment plants in Xuzhou Area, in practice the local governments generally made payment to us in the amount that equaled to the actual treatment volume multiplied by the agreed-upon unit price for designed treatment volume.

The BOT agreements also generally provide for a guaranteed minimum volume, pursuant to which we are entitled to a payment that equals to the unit treatment price multiplied by the guaranteed minimum volume each day, even though the actual treatment volume is less than such guaranteed minimum volume. However, the local governments in Xuzhou Area and we did not enforce such provision in practice and the treatment fees paid to us at each plant is calculated based on actual volume treated. In certain occasions the local government granted us a discretionary subsidy as compensation for our operation cost but not as guaranteed payment.

Inventory

Our inventory related to wastewater treatment business consisted primarily of raw materials such as chemicals. We procure raw materials from local third party suppliers.

Public Infrastructure Projects Operations

During the Track Record Period, we generated revenue from two public infrastructure projects under BT arrangements and one public infrastructure project through a BOT arrangement with certain local governments. Such public infrastructure projects include a river-crossing tunnel in Shanghai and two roads in Changzhou City, Jiangsu Province. When selecting public infrastructure projects, we chose projects for which we have relevant operational experience. We also considered other factors, including local economic status, local government budget and viability of the project. All of such public infrastructure projects were in their concession or repurchase periods during the Track Record Period and we did not enter into new public infrastructure projects during the Track Record Period and as of Latest Practicable Date. Revenue from our public infrastructure projects accounted for 1.7%, 1.5%, 1.3% and 1.1% of our total revenue in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

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The table below sets forth the status of our public infrastructure projects we maintained during the Track Record Period.

<u>Location</u>	<u>Contract type</u>	<u>Concession/ repurchase period (years)</u>	<u>Start of concession/ repurchase period</u>	<u>End of concession/ repurchase period</u>	<u>Un-recovered investment amount as of June 30, 2016</u>
					<i>RMB'000</i>
Xiangyin Road tunnel, Shanghai	BOT	25	January 2006	December 2030	669,761
Paotong Road and North Square, Changzhou	BT	7	September 2010	September 2017	11,462
Wuyi Road, Changzhou	BT	7	September 2010	September 2017	20,292

The table below sets forth the income recorded from our public infrastructure projects for the periods indicated:

	<u>Year ended December 31,</u>						<u>Six months ended June 30,</u>	
	<u>2013</u>		<u>2014</u>		<u>2015</u>		<u>2016</u>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Xiangyin Road tunnel	54,957	81.6	53,347	84.3	52,234	89.9	25,943	90.4
Wuyi Road	7,907	11.8	6,353	10.0	3,756	6.5	1,754	6.1
Paotong Road and North Square	4,467	6.6	3,589	5.7	2,122	3.6	990	3.5
Total	67,331	100	63,289	100	58,112	100	28,687	100.0

The BT arrangements we entered into with local government generally contains the following key terms:

- *Project construction*, which sets forth project details, expected construction period, investment amount, and design and construction arrangements;
- *Quality control*, which sets forth quality control and monitoring arrangement during the construction period and the project inspection measures;
- *Repurchase period*, which sets forth the purchase period for the project and generally starts after the completion of construction;
- *Inspection*, which sets forth inspection parameters and procedures;

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- *Transfer*, which sets forth procedures of the transfer of the operational rights and related risk of the project to the local government at the beginning of the repurchase period and the transfer of the ownership of the project to the local government at the end of the repurchase period; and
- *Investment return*, which sets forth repurchase period, return calculation standard and payment arrangement.

Our BOT contract with the local government for Xiangyin Road Tunnel contains the following key terms:

- *Grant of concession rights*, which sets forth the grant of the concession rights to us for the project by the competent government authorities;
- *Concession period and related matters*, which set forth the commencement and end of concession period;
- *Fee agreement*, which sets forth that we are entitled to receive a fixed amount of RMB87.4 million per annum during the concession period of 25 years commencing on January 1, 2006, covering our operational income, financial income and recovery of our initial investment amounts; and
- *Transfer*, which sets forth procedures and quality requirements for the transfer of the project to the local government upon expiration of the concession periods.

We act as principal contractors and secure public infrastructure projects generally through public bidding process. We fund the construction of the projects and engage third-party professional subcontractors for the construction of the projects.

For Xiangyin Road tunnel project, we engaged a third-party contractor for the operations and maintenance of the tunnel. We entered into a long-term repair and maintenance agreement with the contractor, the key terms of which include:

- Contractor's daily repair and maintenance responsibilities;
- Our inspection rights and penalty to be imposed on the contractor for failure of the inspection;
- Quarterly payment arrangement;
- Equipment and cost allocation; and
- Supplemental terms on operational safety, fire and security and anticorruption measures.

Strategic Investment in Dazhong Transportation Group**Overview**

We became the largest shareholder of Dazhong Transportation in June 1999 after a private placement. As of June 30, 2016, we remained as the largest shareholder with a 25.54% equity interest. Although we have no control over Dazhong Transportation Group's business operations, we are involved in and have significant influence on its business decision and operation.

Dazhong Transportation Group generated revenue in the amount of RMB3,162.8 million, RMB2,935.2 million, RMB2,399.1 million in 2013, 2014 and 2015, respectively, and RMB1,185.7 million and RMB1,188.3 million in the six months ended June 30, 2015 and 2016, respectively. The decrease in revenue generated by Dazhong Transportation Group from 2013 to 2015 was due to Dazhong Transportation Group's disposal of several subsidiaries in 2014 and 2015, including, but not limited to, Shanghai Dazhong Transportation Hongqiao Auto Sales and Service Co., Ltd. (上海大眾交通虹橋汽車銷售服務有限公司) in 2014, and Shanghai Dazhong Transportation Auto Service Co., Ltd. (上海大眾交通汽車服務有限公司), Shanghai Dazhong Transportation Auto Sales Co., Ltd. (上海大眾交通汽車銷售有限公司) and Shanghai Dazhong Transportation Xinhong Auto Sales and Service Co., Ltd. (上海大眾交通新虹汽車銷售服務有限公司) in 2015. Such disposals were generally made as part of the management's strategic planning in response to the market condition. Dazhong Transportation Group generated net profit of RMB480.0 million, RMB496.4 million, RMB561.6 million and RMB276.6 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, among which RMB326.9 million, RMB333.8 million, RMB415.9 million and RMB228.0 million was generated from net other income and gains. Other income and gains consisted primarily gains recognized through disposal of investment. For more details on the results of operations and financial position of Dazhong Transportation Group, please refer to Note 26(b)(1) of the Accountant's Report set out in Appendix IA to this prospectus.

We recorded substantial returns from our strategic investment in Dazhong Transportation Group. Share of results attributable to our investment in Dazhong Transportation Group was RMB96.7 million, RMB103.8 million, RMB122.3 million and RMB64.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 26.6%, 24.9%, 21.3% and 15.2% of our profit before tax during the same periods. It is our strategy to maintain equity interests in Dazhong Transportation Group at a level which enables us to exert significant influence over it while adjusting our level of such equity interests in response to changes in the overall capital markets. As such, we disposed of an aggregate of 0.94% equity interest in Dazhong Transportation Group in 2015 to capitalize on the favorable stock prices of Dazhong Transportation Group, which resulted in a gain on partial disposal of RMB216.4 million in 2015. Conversely, we also acquired an aggregate of 0.06%, 0.36% and 1.58% equity interest in Dazhong Transportation Group in 2014 and 2015 and the six months ended June 30, 2016, respectively, when we deemed the price to be reasonable, in order to maintain our significant influence over Dazhong Transportation Group.

Our relationship with Dazhong Transportation Group

Mr. Yang Guoping, was appointed the general manager of Dazhong Transportation Group upon its incorporation in 1988. In 1992, Dazhong Transportation Group listed its A shares on Shanghai Stock Exchange under its then name, Shanghai Dazhong Taxi Co., Ltd.* (上海大眾出租車股份有限公司). In June 1999, we became the largest shareholder of Shanghai Dazhong Taxi through a private placement.

Two of our Directors currently serve on the board of Dazhong Transportation Group. Our vice chairman and chief financial officer, Mr. Zhong Jinxing, also serves as a supervisor of Dazhong Transportation Group. We are involved in the business decision making process of Dazhong Transportation Group through our presence in Dazhong Transportation Group's board of directors and board of supervisors. We started our business in 1992 as a taxi operator. As such, our management has extensive experience in the industry and provide valuable strategic and operational advice to Dazhong Transportation Group. Due to the historical connection between the two companies, management of our Company and Dazhong Transportation Group have a tradition of communication and consultation in business operations. The chief financial officer of Dazhong Transportation Group, Mr. Luo Weimin used to serve as the chief financial officer of our Company. His experience in finance and risk management gained with our Company enables him to implement similar rigid control in financial matters at Dazhong Transportation Group.

Dazhong Transportation Group's well-established operations in Shanghai enhance our brand awareness. We believe such strategic investment creates synergy to our public utility businesses.

Dazhong Transportation Group's Business

Dazhong Transportation Group is a leading urban transportation service provider in eastern China in terms of number of vehicles in service according to the CIC Report. Dazhong Transportation Group's main businesses include taxi operation, car rental and other transportation-related business. Dazhong Transportation Group also engages in other businesses such as travel-related business, real estate development and financial services.

Taxi operation

Dazhong Transportation Group has been operating its taxi business in Shanghai since 1988 and the "Dazhong" brand has significant market awareness and goodwill in Shanghai. As of June 30, 2016, Dazhong Transportation Group was the second largest taxi operator in Shanghai with approximately 8,348 taxi cars in Shanghai, accounting for approximately 17% of taxis in operation in Shanghai. Dazhong Transportation Group also operates a taxi business in approximately ten other cities in the PRC, including Hangzhou, Ningbo, Suzhou and Wuxi. As of June 30, 2016, Dazhong Transportation Group managed a total of 14,196 taxi cars.

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Car rental

As of June 30, 2016, Dazhong Transportation Group operated a car rental business in Shanghai, Beijing, Guangzhou, Wuxi and Chengdu with 4,968 rental cars. Dazhong Transportation Group is a rental car provider for the Shanghai municipal government for government events, including 2014 Apec meeting, 2010 Shanghai Expo and 2008 Olympic Games. Dazhong Transportation Group also serves as a rental car provider for a number of multi-national enterprises in Shanghai.

Logistics

Dazhong Transportation Group provides integrated logistics services to customers. Logistics services include truck rental, moving services and distribution services. The distribution business focuses on cold-chain delivery of frozen food from the airport. Cold-chain delivery has special requirements for freight trucks and technologies and has rapidly increasing demand with the growth of certain food industries. Other logistics-related services provided by Dazhong Transportation Group include safety inspection of imported food, storage, custom declaration and distribution.

Other businesses

Dazhong Transportation Group is also engaged in a number of other businesses, including travel-related business, real estate development and financial services. Dazhong Transportation Group's travel-related businesses include three hotels and travel agencies. The aggregated property area sold by Dazhong Transportation Group was approximately 88,821 and 161,343 square meters in 2015 and the six months ended June 30, 2016 respectively. Dazhong Transportation Group's financial services include micro-credit business and public auctions. The aggregate assets of the four micro-credit companies owned by Dazhong Transportation Group was approximately RMB1.5 billion as of June 30, 2016. In addition, Dazhong Transportation Group made financial investments in equity shares and other securities of approximately RMB2.2 billion as of June 30, 2016.

Dividend from Dazhong Transportation Group

As a publicly listed company in the PRC, Dazhong Transportation Group adopts the relevant statutory dividend policy which provides that the cash dividend distributed in the last three fiscal years shall not be less than 30% of the total retained earnings for the same period. The board of directors has discretion over when to submit a dividend proposal to the shareholders' meeting for approval. Factors considered by the board of directors in determining whether to make a proposal for dividend distribution include the results of operations, cash flow, financial position and capital needs in the foreseeable future. The proposal is typically drafted by the finance department and further revised by the secretary of the board before it is submitted to the board for review. The board will finalize the proposal and submit it to the shareholders' meeting for approval. We can exert certain influence over the amount and timing

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of dividend distribution by Dazhong Transportation Group as its largest shareholder and through the two directors of Dazhong Transportation Group who are also our Directors. Dividend distributed to us by Dazhong Transportation Group was RMB30.2 million, RMB30.5 million, RMB33.3 million and RMB37.6 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing a dividend of RMB0.08, RMB0.08, RMB0.09 and RMB0.10 per share.

Strategic Investment in Suchuang Gas

In the first half of 2016, we acquired 19.76% equity interest in Suchuang Gas, with the book value of our investment being RMB360.3 million as of June 30, 2016. One of our Directors, Mr. Zhuang Jianhao serves on the nine-member board of Suchuang Gas.

Suchuang Gas is a dominant piped natural gas operator in Taicang, Jiangsu Province. We believe that holding an equity interest in Suchuang Gas will create synergy with our piped gas supply business, increase our exposure to and presence in the piped gas supply industry, and potentially help us further expand the geographic reach of our piped gas supply business in the future while maintaining our focus on the Yangtze River Delta region.

FINANCIAL INVESTMENTS

We have built and actively managed a portfolio of equity investments in the public utility, finance and other industries. We believe financial investments in industries in which we have in-depth knowledge and operational experience will supplement our main business operations. Our financial investments generated strong profit for us during the Track Record Period.

Overview of Our Investment Portfolio

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investments in associated companies ⁽¹⁾	2,699,039	2,997,521	4,082,210	4,670,115
Amount due from an associate	60,335	60,335	60,335	60,335
Available-for-sale financial assets				
– Non current	765,227	786,372	833,729	882,652
– Current	30,000	28,000	85,000	60,000
Financial assets at fair value through profit or loss	181	47,155	106,333	64,373
Total	3,554,782	3,919,383	5,167,607	5,737,475
As % of total assets	34.1	32.8	36.4	36.9

Note:

(1) including investment in Dazhong Transportation Group and Shenzhen Capital Group.

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Investment in associated companies

We invest in certain companies over which our Directors believe we will be able to exert significant influence. We typically exert influence in the associated companies' operations through board presence in such companies. As such, interest in associates was recorded using equity accounting methods. The table below sets forth our interest in associated companies as of the indicated dates:

Name of Companies	Registered capital	As of December 31,						As of June 30,		Principal activities
		2013		2014		2015		2016		
		% of equity interests ⁽¹⁾	Book value	% of equity interests ⁽¹⁾	Book value	% of equity interests ⁽¹⁾	Book value	% of equity interests ⁽¹⁾	Book value	
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Public Utility Service										
Dazhong Transportation Group	2,364,123	24.48	1,361,018	24.54	1,564,096	23.96	2,076,060	25.54	2,393,782	Public transportation
Suchuang Gas	50,000	-	-	-	-	-	-	19.76	360,307	Supply of piped gas
Financial Investment										
Shenzhen Capital Group	4,202,250	13.93	1,110,914	13.93	1,209,837	13.93	1,690,895	13.93	1,581,177	Investment holding and provision of financial consultation and asset management services
SEISYS	100,000	28.00	109,688	28.00	106,225	28.00	111,745	28.00	108,773	Provision of products and services for smart transportation solution
Shanghai Hangxin	255,600	16.13	41,934	16.13	41,385	16.13	91,470	16.13	83,106	Investment management services
Shanghai Xingye Venture Capital	40,000	20.00	44,511	20.00	41,372	20.00	79,717	20.00	110,747	Investment holdings
Xuhui Onlly Micro-Credit	150,000	20.00	30,974	20.00	34,606	20.00	32,323	20.00	32,223	Micro-credit services
Total			<u>2,699,039</u>		<u>2,997,521</u>		<u>4,082,210</u>		<u>4,670,115</u>	

Note:

(1) The percentages represent our beneficial interests in the associated companies.

We generally hold our interests in associated companies as long-term investments. During the Track Record Period, we did not purchase or dispose of any equity interest in these associated companies except for (i) the disposal of a 13.75% indirect equity interest in New China Fund Management Co., Ltd.* (新華基金管理有限公司) in 2013; (ii) the disposal of a 40.00% indirect equity interest in Zhejiang Dazhong Equity Investment Management Co., Ltd.* (浙江大眾股權投資管理有限公司) in 2013; and (iii) the purchase and disposal of shares in Dazhong Transportation Group, which consist of (x) the disposal of 14,821,900 shares in 2015, (y) the purchase of 5,658,139 shares in 2015, (z) the purchase of 24,972,514 shares in the six months ended June 30, 2016. The purchase and disposal of shares of Dazhong Transportation Group were all open market transactions. The amount of shares and timing of such transactions

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were mainly affected by market conditions and stock prices of Dazhong Transportation Group. Except for Dazhong Transportation Group and Suchuang Gas, our associated companies were all private companies as of June 30, 2016.

The table below sets forth the breakdowns of our share of results of associates and dividends we received from associated companies for the indicated periods:

Name of Companies	Year ended December 31,						Six months ended June 30,	
	2013		2014		2015		2016	
	Share of results	Dividends	Share of results	Dividends	Share of results	Dividends	Share of results	Dividends
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Public Utility Service								
Dazhong Transportation Group	96,657	30,244	103,814	30,457	122,300	33,259	64,095	37,621
Financial Investment								
Shenzhen Capital Group	116,917	48,787	149,511	48,787	127,373	58,544	103,134	— ⁽¹⁾
SEISYS	17,774	8,680	5,217	8,680	8,320	2,800	1,228	4,200
Shanghai Hangxin	(2,063)	1,245	(549)	—	19	—	48,483	63,581
Shanghai Xingye Venture Capital	11,284	12,036	2,091	4,825	7,597	—	838	—
Xuhui Only Micro-Credit	908	—	3,632	—	(2,283)	—	(100)	—
Shanghai Dazhong Chuxing	—	—	—	—	—	—	(11,073)	—
Zhejiang Dazhong Equity Investment Management Co., Ltd.* (浙江大眾股權投資管理有限公司)	72	—	—	—	—	—	—	—
New China Fund Management Co., Ltd.* (新華基金管理有限公司)	(217)	—	—	—	—	—	—	—
Total	241,332	100,992	263,716	92,749	263,326	94,603	206,605	105,402

Note:

(1) We received RMB58.5 million dividend from Shenzhen Capital Group in August 2016.

We generally can exert certain influence over timing and amount of dividend distribution by our associated companies through our status as significant shareholder and the director(s) we appointed to the board, if any. During the Track Record Period, we received the majority of our dividends from Dazhong Transportation Group and Shenzhen Capital Group, which represented 78.3%, 85.4%, 97.0% and 35.7%, respectively, of the total dividends we received from our associated companies for the years ended December 31, 2013, 2014, 2015 and the six

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months ended June 30, 2016. For more details on dividend distribution by Dazhong Transportation Group and Shenzhen Capital Group, please refer to “— Dividend from Dazhong Transportation Group” and “— Our Investment in Shenzhen Capital Group”.

Available-for-sale financial assets

The table below sets forth details of our major non-current investments in available-for-sale financial assets as of the indicated date:

Industry	As of December 31,						As of June 30,			
	2013		2014		2015		2016			
	RMB'000	% of equity interests	RMB'000	% of equity interests	RMB'000	% of equity interests	RMB'000	% of equity interests		
Industrial Securities ⁽¹⁾	Finance	133,253	0.54	254,783	0.32	185,358	0.32	161,885	0.42	
Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司) ⁽¹⁾	Manufacturing	73,850	2.25	127,947	2.25	175,128	2.16	165,911	2.16	
Chinese Culture Investment	Media	150,205	10.99	150,205	10.99	150,205	10.99	198,322	12.61	
Shanghai Jiada Only Co., Ltd. (上海交大昂立股份有限公司) ⁽¹⁾	Pharmaceutical	-	-	49,653	1.33	101,809	1.53	95,401	1.53	
Dazhong Insurance	Insurance	23,560	5.03	-	-	-	-	-	-	
Shanghai Xuhui Dazhong Micro-credit Co., Ltd.* (上海徐匯大眾小額貸款股份有限公司)	Finance	20,500	5.00	20,500	5.00	20,500	5.00	20,500	5.00	
Shanghai Jiading Dazhong Micro-credit Co., Ltd.* (上海嘉定大眾小額貸款股份有限公司) ⁽²⁾	Finance	38,000	19.00	38,000	19.00	38,000	19.00	38,000	19.00	
Shanghai No. 1 Finance and Economics Media Co., Ltd.* (上海第一財經傳媒有限公司)	Media	120,000	5.29	-	-	-	-	-	-	
Shanghai M&G Stationery Inc.* (上海晨光文具股份有限公司) ⁽¹⁾	Stationery	4,950	0.28	4,950	0.28	43,218	0.24	38,940	0.24	
Others		200,909	-	140,334	-	119,511	-	163,693	-	
Total		765,227	-	786,372	-	833,729	-	882,652	-	

Notes:

(1) companies publicly listed in the PRC.

(2) We disposed of our entire investment in Shanghai Jiading Dazhong Micro-credit Co., Ltd. in August 2016.

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We focus our major available-for-sale investment on equity interest of publicly listed companies or companies with an immediate plan for initial public offerings. Among our portfolio companies in which we held non-current available-for-sale financial assets as of June 30, 2016, four were publicly listed in the PRC. These four investments were among the top five available-for-sale investments in terms of asset value, and their aggregate asset value accounted for 52.4% of the total asset value of our non-current investment in available-for-sale financial assets as of June 30, 2016. Our largest available-for-sale investment in terms of asset value as of June 30, 2016 was initially made in April 2010 in Chinese Culture Investment, which is a private equity fund that focuses on culture and media related investments. We are a limited partner of Chinese Culture Investment. Investment in Chinese Culture Investment accounted for 22.5% of the total asset value of our non-current investment in available-for-sale financial assets as of June 30, 2016. Our other available-for-sale investment in private companies as of June 30, 2016 mainly included companies that operated in public utility, transportation and micro-credit industries.

Our available-for-sale financial assets also included investments in investment-linked deposits products provided by the PRC banking institutions with guaranteed rates of return at fixed periods of terms within 3 months. The table below sets forth our investment-linked deposits products as of the indicated dates:

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
				<i>RMB'000</i>
Current				
Investment-linked deposits	30,000	28,000	85,000	60,000

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent primarily equity and debt securities listed on Hong Kong and overseas stock exchanges. The table below sets forth our financial assets at fair value through profit or loss.

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
				<i>RMB'000</i>
Listed equity investments	181	45,965	104,871	62,880
Listed debt investments	–	1,190	1,462	1,493
Total	181	47,155	106,333	64,373

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Investment income and gains

The table below sets forth investment income and gains from our financial investments during the indicated periods:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Gain/(loss) on disposal of financial assets	55,351	151,755	42,256	(8,395)
Change in fair value				
– Available-for-sale financial assets ⁽¹⁾	(96,883)	120,661	43,618	(62,337)
– Financial assets as fair value through profit and loss	7	407	(21,784)	(12,611)
Total	(96,876)	121,068	21,834	(74,948)
Impairment loss				
– Available-for-sale financial assets	(40,000)	(9,330)	–	–
Dividend income from available-for-sale financial assets	21,031	12,722	44,353	121,846
Other financial income	8,057	7,414	7,256	6,090

Note:

(1) Included in other comprehensive income for the indicated periods.

For gain/loss realized we received from the disposal of our investment during the periods indicated, please refer to the section “Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Other Income and Gains”.

Our Investment Principles

Our investment goal is to actively capture opportunities to increase return on our cash balances while ensuring sufficiency of working capital and protection of principal invested. We emphasize the investment principle that we will always focus direct and long-term investments in industries in which we have in-depth understanding and/or ample operational experience in the form of investment in associated companies. In addition, we make investments in a number

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of investment companies, through which we hold indirect investments in a diversified range of industries. We generally hold our investments in associated companies with a view to long-term growth and return. Our principle for investments in available-for-sale financial assets is to focus on private companies in the PRC who have a plan for a public listing in the foreseeable future.

For our investment in associated companies engaged in certain industries, such as SEISYS which provides smart solutions in urban transportation systems, we typically seek to actively participate in the target company business decision making. We require rights to appoint directors in our associated companies and provide advice to their management based on our business know-how and operational expertise.

For associated companies which are investment platforms, such as Shenzhen Capital Group, Shanghai Hangxin and Shanghai Xingye Venture Capital, through which we make indirect investments in a diversified range of industries, we focus on the involvement in the investment decision-making process of the investment platforms and we regularly assess the investment platforms' overall performance. We typically request rights to appoint members to investment committee of the investment platforms in order to participate in their respective decision making processes. We do not participate in the business operation of the portfolio companies held by our investment platforms.

Investment Selection Criteria

We select our equity investment targets primarily based on growth potential and valuation of the target companies. We have set forth the following criteria when we evaluate potential long-term investment targets:

- *Industries*: we give priority to industries that have similarity or potential synergy with our public utility service businesses, and we also evaluate industries for potential investment opportunities based on their growth potential and competitive landscape;
- *Market position*: we take into consideration a target company's market position and market share, which we believe will significantly affect the feasibility of the target company's public listing;
- *Corporate history*: corporate history of a target company is an important selection criterion for us, we endeavor to perform due diligence review on the corporate history of a target company from its incorporation date, and pay particular attention to changes of ownership and shareholding structure in state-owned assets as our general exit strategy is through public listing of the target companies' shares on a stock exchange;
- *Financial performance and valuation*: we review a target company's financial performance and assess the valuation of the target company by comparing market values of similar publicly listed companies;

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- *Tax*: our review of a target company's tax focuses on whether there is any historical non-compliance;
- *Management structure*: management capability and stability is our principal criterion during the due diligence process, we perform detailed review of available information on the changes in the board composition and senior management personnel; and
- *Related party transactions and non-competition arrangements*: we also make inquiries on whether there is any existing related party transaction or non-competition arrangement with management or other parties.

Asset Allocation Principle

We follow a general principle of asset allocation that prioritizes capital needs for our core public utility service operations. In budget planning for each fiscal year, we first set aside budget needed for capital expenditure in public utility service operations pursuant to a detailed budget plan and we deem any excessive capital as available for financial investment. The actual amount of investment we made in each year varied, largely depending on the availability of feasible targets.

During the Track Record Period, we funded our financial investments through a combination of internal capital resources generated from our operations, bank borrowings and proceeds from debt offerings.

During the Track Record Period, we generated steady cash flow and retained earnings from our core businesses which were a significant source for our investment funding. We have established long-term relationship with a number of major commercial banks. In addition, in 2012, we issued a debt instrument in a principal amount of RMB1.60 billion with a term of six years.

Exit Strategies and Expected Holding Period

Our main exit strategy for available-for-sale financial assets is through public listing or private transfer of shares. As such, our expected holding periods in target companies are generally over one year. We generally seek to sell our holding of equity interest in a company through private transactions if we determine the timetable for a public listing for such company is unclear.

Expected Return Rate

For a potential investment in an associated company, we set an expected return on equity for the target company and try to incorporate such expected return on equity into our investment agreement with the target company. For investment in available-for-sale assets, we assess the investment by internal return rate, which takes into consideration of dividend, capital gain, amount of investment and time value of money.

Hedging Activities

Given the nature of our investments, we generally do not engage in any hedging activities.

Risk Control Policies and Measures

We believe rigorous risk control is crucial to our principle of prudent investment. We have established a risk control system, including internal control manual on investment management that governs all material aspects of our financial investments such as investment decision making, on-going monitoring and risk assessment of portfolio companies, investment fund flow and internally reporting hierarchy and responsibility allocation.

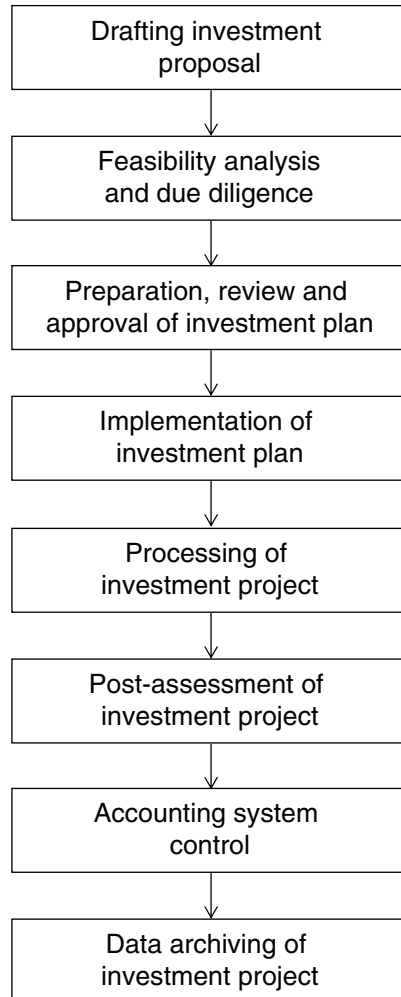
Our Board is in charge of designing and optimizing our overall risk control system, enacting various risk control policies and overseeing the implementation of such policies. The following departments of our Company and subsidiaries are in charge of different aspects of investment executions:

- *Investment and development department:* (i) organize discussion and analysis of a potential investment and compile investment opinion or analytic report to be reviewed by management; and (ii) lead negotiation with third parties on investment projects and execute investment, merger or reorganization in relation to the investments;
- *Budget and finance department:* raise and allocate investment fund and manage overall fund flow for investments; and
- *Our investment platforms:* (i) seek and screen investment opportunities, apply for investment project opening and organize relevant departments or third party professionals to analyze feasibility of the investment projects; and (ii) continuously monitor the operations and progress of public listing of portfolio companies.

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Risk control prior to an investment

The diagram below sets forth the standard investment project assessment and approval stages that we have implemented:



A proposed investment project needs to be reviewed and approved by a investment risk control committee, which consists of management personnel from multiple departments, including the manager of the proposed investment project, the manager of investment and development department, the manager of budget and finance department, the chief financial officer, the chief executive officer of our Company and the chairman.

Pursuant to our risk control policies, if the asset, price, revenue or profit of the target company of a proposed investment exceeds 20% of the net assets of our Company in the latest audit report, then such proposed investment is considered a material investment. In addition to all assessment and approval procedures as described above, a material investment has to be approved by the chief executive officer or our Board. In addition, pursuant to our Articles of

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Association, for investment which exceeds 30% of our total assets in the most recent audit report, approval at the shareholders' meeting is required.

The investment and development department of our Company assumes a leading role in our investment project assessment and approval processes, which include:

- subsidiaries or the business department seek and perform initial screening of investment opportunities;
- if the investment opportunities passed the initial screening, they will be submit to authorized investment personnel for initial approval;
- a feasibility analysis group is formed to conduct due diligence and compile feasibility analysis report;
- the feasibility analysis report will be reviewed by the legal department, the investment and development department and the budget and finance department;
- the feasibility analysis report will be reviewed by the joint investment risk control committee;
- once an investment project is approved, the legal department will draft relevant investment documents and submit to investment and development department for review and approval; and
- the initiating subsidiary or the business department will execute the investment.

Post-investment risk control and on-going assessment

Once an investment is made, the legal department, the investment and development department and the budget and finance department will monitor the investment according to their respective responsibility allocations, including procuring and reviewing quarterly or annual financial reports of target companies.

The investment and development department is in charge of the disposal of or exit from invested companies. In assessing proper disposal or exit time and strategy, we often consult with professional appraisal companies in addition to closely monitoring market value of our investments. When the investment and development department considers a disposal or exit advisable, it will submit in collaboration with the finance department an investment disposal proposal to the chief executive officer for approval. Disposal of material investment has to be approved by the Board. When an investment is disposed of, relevant documents of the investment are filed for record.

Our Investment in Shenzhen Capital Group

Our largest financial investment was made in Shenzhen Capital Group. As of June 30, 2016, we held a 13.93% equity interest in Shenzhen Capital Group as its third largest shareholder, with the book value of our investment being RMB1.6 billion. Share of results from Shenzhen Capital Group in 2013, 2014 and 2015 and the six months ended June 30, 2016 was RMB116.9 million, RMB149.5 million, RMB127.4 million and RMB103.1 million, representing 48.4%, 56.7%, 48.4% and 49.9% of share of results from our associated companies during the same periods.

Shenzhen Capital Group was incorporated in 1999 as part of the government's initiatives to develop China's financial investment industry. We made an investment of RMB307.0 million and brought our equity interest in Shenzhen Capital Group to 20% in November 2002 and we have been a significant shareholder ever since.

Two of our Directors, namely, Mr. Yang Guoping and Mr. Liang Jiawei serve on the 13-member board of Shenzhen Capital Group and also act as members of strategy and budget committee, remuneration and assessment committee and nominating committee of the board of Shenzhen Capital Group. Mr. Yang serves as the chairman of the remuneration and assessment committee. Through such board presence, we are involved in the business and investment decision making of Shenzhen Capital Group.

From its incorporation and till December 2015 Shenzhen Capital Group has made over 600 investments totalling approximately RMB19.6 billion in a wide variety of industries, including information technology, manufacturing, consumer products, logistics, biomedicine, energy and environment, new materials and internet, according to the CIC Report. Among its investment portfolio companies, over 100 companies are publicly listed in the PRC, Hong Kong, Singapore or Germany. Shenzhen Capital Group focuses on venture capital investment in growth and expansion stage companies and also makes other types of investment such as fund management and private investment in public equity. Shenzhen Capital Group also provides investment related valued-added services. The main exit strategies are public listing and disposal through merger and acquisition transactions. Substantially all of Shenzhen Capital Group's investment is made in the PRC, more than half of which is in Shenzhen and Eastern China, and is denominated in RMB. Shenzhen Capital Group mainly invested in the following areas: information technology, chips, optical, mechanical, electrical, consumer goods, logistics, retail, life sciences, energy, environment, new materials, chemicals, Internet and new media. Key investment of Shenzhen Capital Group in recent years included Dehong Securities Co.* (德宏股份) (Stock Code: 603701.SH), Jiangsu Wanlin Modern Logistics Co., Ltd. (Stock Code: 603117.SH), Le.com Limited* (樂視網) (Stock Code: 300104.SZ) and NVC Lighting Holding Limited* (雷士照明控股有限公司) (Stock Code: 2222.HK), among others.

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The table below sets forth the revenue and profit of Shenzhen Capital Group for the indicated periods:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Revenue	384,797	398,193	465,833	107,160	195,205
Profit from continuing operations	863,886	1,138,297	1,012,491	790,754	746,375
Other comprehensive income	172,175	(18,131)	3,001,882	1,933,299	(1,106,902)
Total comprehensive income	1,036,061	1,120,166	4,014,373	2,724,053	(360,527)

Being principally engaged in venture capital investment, the operating performance of Shenzhen Capital Group is primarily affected by its management's investment decisions and the resulting gain or loss realized upon disposal of investment in portfolio companies, which is reflected in the profit from continuing operations. Revenue of Shenzhen Capital Group represented sales of goods and services by one of its portfolio companies which is accounted for as a subsidiary. Other comprehensive income was primarily resulted from change in fair value of available-for-sale financial assets. Fluctuations in other comprehensive income were resulted from changes in the fair values of the publicly listed companies in which Shenzhen Capital Group invested. The fair values of the publicly listed companies were in turn affected by the general stock market condition.

The table below sets forth the assets and liabilities of Shenzhen Capital Group as of the indicated dates:

	As of 31 December			As of 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	2,128,439	2,682,788	3,558,884	4,003,252
Non-current assets	10,584,662	11,270,118	16,648,576	16,262,380
Current liabilities	(3,086,308)	(2,564,218)	(3,936,089)	(5,345,078)
Non-current liabilities	(1,149,424)	(2,066,331)	(3,175,618)	(2,686,839)
Net assets	<u>8,477,369</u>	<u>9,322,357</u>	<u>13,095,753</u>	<u>12,233,715</u>

Non-current assets of Shenzhen Capital Group primarily consisted of investment in portfolio companies as available-for-sale financial assets and to a lesser extent long-term investment in associated companies, which in aggregate accounted for approximately 95%, 95%, 96% and 96% of the total non-current assets as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. Total liabilities consisted of primarily of corporate debts issued

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by Shenzhen Capital Group and bank borrowings which in aggregate accounted for approximately 62%, 59%, 58% and 54% of the total liabilities as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

Shenzhen Capital Group does not have a definitive dividend plan. However, Shenzhen Capital Group distributed cash dividend consistently during the Track Record Period.

Dividend distributed to us by Shenzhen Capital Group was RMB48.8 million, RMB48.8 million, RMB58.5 million and nil in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We received RMB58.5 million dividend from Shenzhen Capital Group in August 2016. The board of directors has discretion over when to submit a dividend proposal to the shareholders' meeting for approval. Factors considered by the board of directors in determining whether to make a dividend proposal include the results of operations, cash flow, financial position and capital needs in the foreseeable future. The proposal is typically drafted by the finance department and further revised by the secretary of the board before it is submitted to the board for review. The board will finalize the proposal and submit it to the shareholders' meeting for approval. We can exert certain influence over the amount and timing of dividend distribution by Shenzhen Capital Group as its third largest shareholder and through the two directors we appointed.

FINANCIAL SERVICE BUSINESSES

We started our micro-credit business in 2013 and financial leasing business in 2014. During the Track Record Period such businesses were relatively insignificant as compared to our main businesses and financial investments, in terms of asset value, income contribution and risk exposure. We entered into such businesses as a means to explore alternative revenue sources.

Micro-credit Business

Micro-credit business is localized in nature. We operate our micro-credit business only in Minhang District, through a majority-owned subsidiary, Minhang Dazhong Micro-credit. The outstanding loan receivables we granted as of December 31, 2015 and June 30, 2016 represented 1.4% and 1.3%, respectively of our total assets as of the same date, respectively. Going forward, we do not intend to significantly increase the scale of our micro-credit operations. We are advised by our PRC legal advisers that Minhang Dazhong Micro-credit has obtained all necessary licenses and permit to conduct micro-credit business in its respective region.

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Loan portfolio

The table below sets forth information on our micro-credit business for the period indicated:

	The year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	Number of new loans granted	1	39	36
Aggregate principal amount of new loans granted (RMB'000)	10,000	296,000	238,200	60,700
Aggregate collateral value (RMB'000) of loan granted ⁽¹⁾	8,000	154,690	316,333	558,473
Outstanding loan amount at end of period (RMB'000)	10,000	186,451	208,200	210,400
Interest income and related revenue for the period (RMB'000)	–	22,288	28,996	10,907

Note:

- (1) Collateral values were estimated by us in connection with the loan approval process for the underlying loans. The majority of collateral underlying the outstanding loans we granted as of June 30, 2016 was real estate properties.

The outstanding loan receivables we granted was RMB10.0 million, RMB186.5 million, RMB208.2 million and RMB210.4 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively, representing 0.2%, 3.5%, 3.1% and 3.1% of our net assets as of the same dates. We recognized allowance for impairment losses in the amount of RMB0.1 million, RMB2.6 million, RMB7.4 million and RMB7.7 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, representing 1.0%, 1.4%, 3.5% and 3.7% of total outstanding loan receivables as of the same dates. Interest income and related revenue generated from micro-credit business was nil, RMB22.3 million, RMB29.0 million and RMB10.9 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing nil, 5.3%, 5.1% and 2.6% of our profit before tax for the same periods.

Our main customers of micro-credit business are local micro- and small-enterprises and individuals. We generally require a customer to provide collateral and/or guarantee. As of June 30, 2016, the majority of collateral underlying the loans was real estate properties, as it is easier to determine their fair market value and for disposal in the event of a loan default. The fair value of collateral that we are permitted to sell or re-pledge in the absence of default was RMB8.0 million, RMB154.7 million, RMB316.3 million and RMB558.5 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, representing a loan-to-value ratio of 125.0%, 120.5%, 65.8% and 37.7% as of the same dates.

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The terms of our loans are generally less than one year. In limited circumstances we extend loans upon expiration of the loan terms, after we evaluate all relevant circumstances, including the borrower's credit worthiness, reason for extension and terms of extension. The borrower is required to repay the principal amount and any outstanding interest in full before the extension of the loan can be granted.

Interest rates

Interest rate on each loan is individually negotiated with the borrower, and is generally affected by factors such as the principal amount and the term of the loan, the creditworthiness of the borrower, and the value of collateral. Pursuant to the PRC Contract Law, with reference to Opinions on the Court Trial for Lending Cases (關於人民法院審理借貸案件的若干意見) issued by the Supreme People's Court of the PRC on August 13, 1991, interest rates charged by small loan lenders may not exceed four times of the prevailing interest rate charged by commercial banks for comparable loans, which is generally comparable to the PBOC Benchmark Rate. During the Track Record Period, the interest rate we charged for each loan was below the applicable interest rate threshold. The Provisions of the Supreme Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases, which became effective on September 1, 2015, have amended the above regulations. Pursuant to the new provisions, if the annual interest rate charged by small loan lenders does not exceed 24%, the PRC courts will hold the borrower liable for the interest due; if the annual interest rate exceeds 36%, the agreement on the excess interest amount shall be invalid. None of the loans granted by Minhang Dazhong Micro-credit exceeded the cap on annual interest rate mentioned above.

Risk Management

Minhang Dazhong Micro-credit has a risk control committee of three members, all of whom have relevant experience in financial service industry. A loan application can only be granted if unanimously approved by all three risk control committee members. The loan application requires the applicant to provide material information related to the loan, including planned use of proceeds, business and financial information of the applicant, and proposed collateral and evaluation. In order for the risk control committee to make informed decision on a loan application, our staff who processes a loan application is required to conduct independent due diligence on the loan applicant, including (i) interview with the loan applicant or its management if the applicant is a company; (ii) on-site visit of the applicant or its business location and facilities; and (iii) independent due diligence on the financial and business conditions of the loan applicant, through publicly available resources or word of mouth. If collateral is pledged, the staff is also required to gather available independent valuation on the collateral. If the staff believes the loan application should be granted, it will submit all relevant documents and information for the risk control committee to review and approve. Once the loan application is approved, the staff will prepare a standard form loan agreement and submit it to the risk management department for review and approval before it is executed with the loan applicant.

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After the loan is granted, our staff is required to monitor the loan on a periodic basis by strictly following our risk management policies.

Loan collection

Our customers are generally required to make monthly payment on loan interest that becomes due. Upon expiration, if a customer fails to repay the principal amount with all outstanding interest we will send payment notice to such customer. If the customer fails to make due payment within a prescribed period following the issue of the notice, we deem the customer to be in default and we will initiate our loan collection process. If the loan is secured by collateral, we will initiate legal proceedings for the disposal of the collateral to repay the outstanding amount. During the Track Record Period, we designated seven loans to be in default with an aggregate outstanding amount of RMB50.7 million. We had not recovered any of the principal loan amount and interest of the defaulted loans as of June 30, 2016.

Funding

We finance our micro-credit business primarily through a combination of our own capital and bank borrowings. Currently, according to relevant laws and regulations, a microfinance company is only permitted to obtain bank borrowings up to a certain percentage, usually 50%, of its net capital for conducting its loan business. As a result, the scale of our business depends, to a large extent, on the amount of our registered capital. As of June 30, 2016, Minhang Dazhong Micro-credit had a registered capital of RMB200 million and had no outstanding bank borrowings.

Financial Leasing

We entered into our financial leasing business in September 2014 in the Shanghai Free Trade Zone through establishment of Shanghai Dazhong Financial Leasing with FCEEL, Dazhong Transportation Group, Shanghai Dazhong Business Management, Shanghai Chengguang Business Consultation Co., Ltd.* (上海誠光商務信息諮詢有限公司). We hold a 65% equity interest in Shanghai Dazhong Financial Leasing and have the right to appoint three of the five directors of the company. As of June 30, 2016, we maintained 17 on-going transactions with an aggregate investment amount of RMB1,075.5 million.

We currently operate our financial leasing business by focusing on seven industries which we believe to have sustainable growth potential, namely, the public utility service, transportation, medical equipment, energy devices, industrial machinery, energy saving and environmental protection, and modern service industries.

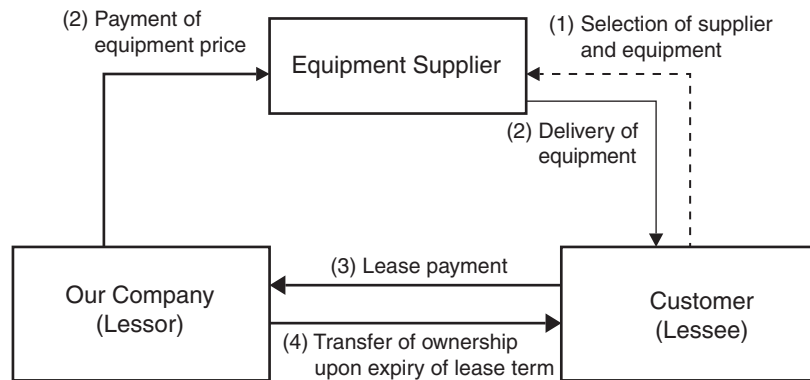
We tailor our services to customers primarily within our target industries. These services include customized financing solutions through equipment-based financial leasing, which comprises direct financial leasing and sale-leaseback transactions. We fund our financial leasing business through our own capital and bank loans. As of June 30, 2016, Shanghai

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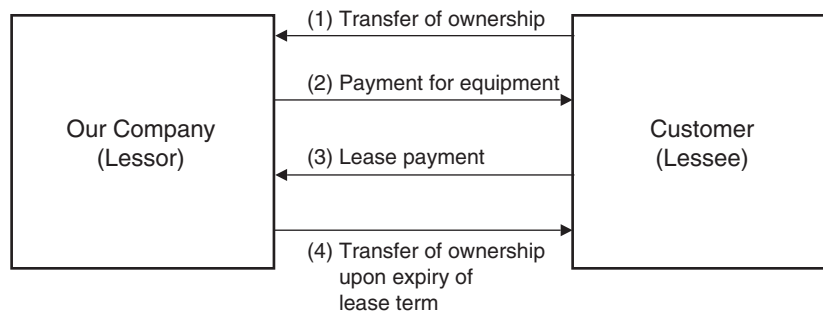
Dazhong Financial Leasing had total unutilized banking facilities in the amount of RMB2.2 billion. We do not have any plan to significantly expand the operational scale of Shanghai Dazhong Financing Leasing in the foreseeable future.

Our financial leasing business is carried out primarily in the form of direct financial leasing or sale-leaseback transactions, which is further illustrated below:

A typical direct financial leasing transaction usually involves three parties, namely lessor, lessee and equipment supplier. The relationship among the three parties is illustrated in the following diagram.



A typical sale-leaseback transaction usually involves two parties, namely lessor and lessee. The relationship between the two parties is illustrated in the following diagram.



Project management

Dazhong Financial Leasing has implemented a project management policy which sets forth project management responsibility allocation and operational procedures. Dazhong Financial Leasing has a project approval committee and four functional departments, each with clearly delineated authorities and responsibilities:

- *project approval committee*, which is in charge of promulgating and amending risk control policies, reviewing and approving financial leasing projects, and assessing overall risk exposure;

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- *business management department*, which is responsible for accepting project application and conducting due diligence during the loan approval process and on-going monitoring of a project after it is approved;
- *risk management and compliance department*, which is responsible for implementing risk control policies and reviewing project application from a compliance perspective;
- *asset management department*, which is responsible for monitoring the project assets and collecting rental payments for active projects; and
- *funding and finance department*, which is in charge of accounting, tax and audit related works and capital resource management.

The project management policy also sets forth detailed operational procedures and standards for each of the functional department. In addition, the policy provides standard forms and templates for project application, due diligence document request list, due diligence report, and project approval record. As a result, a standard and comprehensive set of related information is required to be gathered during the project application phase and the project evaluation and approval process are streamlined with clearly defined steps and hierarchy.

Risk management

We have implemented a risk management policy for financial leasing business which sets forth detailed risk management procedures in project evaluation, approval and monitoring.

In the project evaluation phase, the risk management policy provides certain requirement that needs to be met by a corporate applicant, among other things:

- all necessary licenses and permits to operate its business;
- more than two years of operational history;
- a controlling entity or person that has more than five years of operational experience in related industry; and
- good credit history.

In the project approval phase, the risk management policy requires the proposed project to satisfy certain criteria to avoid concentrated credit risk, including:

- upper limits of credit lines in terms of ratios to registered capital of Shanghai Dazhong Financial Leasing that can be granted to an individual corporation and its affiliates;

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- upper limits of credit lines in terms of ratios to the appraised value of the underlying assets; and
- time limit of the validity of the approval for a project.

After the project is approved and the credit line is granted to a customer, the risk management policy requires the business operation department to monitor the underlying assets and the customer on an on-going basis. The policy sets forth various warning parameters for the customer's financial and operational conditions, such as failure to provide financial reports on time, significant increase in loans or account payable, departure of key management, and significant negative publicity. If any of such warning parameter is triggered, the staff is required to report relevant information to the management immediately for further assessment.

CUSTOMERS

Our customers in piped gas supply business are commercial entities and individual households which use the piped gas we delivered. Due to the nature of the gas supply business, we are generally able to retain our customers once they are connected to our gas supply network and use our gas supply services, unless such customers relocate from their current premises. Our customers in the piped gas supply business also included two subcontractors in Shanghai we engaged for pipeline construction projects, as we sell certain raw materials such as pipes needed for such construction projects to these two subcontractors to ensure the quality of the pipes used in the construction of our pipelines. Both of the subcontractors were among our top five suppliers in 2013, 2014 and 2015. One of the subcontractors was among our top five customers in 2014. Both subcontractors are Independent Third Parties.

The table below sets forth the details of our transactions with the two customers/suppliers for the indicated periods:

	Year ended 31 December						Six months ended June 30,	
	2013		2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Subcontractor 1								
Materials sold to subcontractor ⁽¹⁾	57,969	1.6	51,540	1.3	43,994	1.0	21,077	0.9
Cost we paid to subcontractor ⁽²⁾	260,404	7.7	369,185	10.3	213,807	5.6	203,977	9.7
Subcontractor 2								
Materials sold to subcontractor ⁽¹⁾	34,858	0.9	31,843	0.8	41,317	0.9	30,857	1.3
Cost we paid to subcontractor ⁽²⁾	103,561	3.1	190,455	5.3	138,649	3.6	142,508	6.8

Notes:

- (1) Percentages refer to sales amounts to subcontractor as percentages to revenue generated from piped gas supply operations during the respective periods.

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- (2) Percentages refer to cost incurred with the subcontractor as percentage to cost of sales for piped gas supply operations during the respective periods.

We did not have any other customer who was also our supplier during the Track Record Period.

From January 2013 to December 2014, an Independent Third-Party (the “**Haimen distributor**”) procured natural gas from Nantong Dazhong Gas and supplied it to end users in Haimen City, Jiangsu Province, where we do not have any piped gas supply operations. The retail price to the Haimen distributor was RMB3.17/m³ and the volume procured by the Haimen distributor was 4.0 million m³ and 9.7 million m³ in 2013 and 2014, respectively. Revenue generated from such sales accounted for 3.3% and 6.1% of revenue generated from natural gas supply operations by Nantong Dazhong Gas and 0.4% and 0.8% of our total revenue from piped gas supply operations in 2013 and 2014, respectively. Since December 2014, the Haimen distributor has been procuring natural gas from CNPC and stopped procuring natural gas from Nantong Dazhong Gas. Since the Haimen distributor does not have pipeline connection to CNPC’s pipeline, it rents pipeline from Nantong Dazhong Gas for a rental fee of RMB0.30/m³. In 2015 and the six months ended June 30, 2016, the total rental fee was RMB1.9 million and RMB2.0 million, respectively, which accounted for less than 1% of the total revenue generated from sales of natural gas by Nantong Dazhong Gas in each of the periods. Except for the Haimen distributor and a number of liquefied gas stations in Nantong Area which accounted for less than 1% of our total revenue, we did not have any whole-sale customers in our piped gas supply business during the Track Record Period.

We conduct our environment and public infrastructure projects business mainly through BOT, TOT or BT contracts under which our customers are local governments. For more details of our long-term contracts with local governments, please refer to the section “— Our Public Utility Service Business — Wastewater treatment Operations” and “— Our Public Utility Service Business — Public infrastructure projects Operations”.

Revenue generated from our top five customers accounted for 12.4%, 10.7%, 8.3% and 7.8% of our total revenue in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our top five customers during the Track Record Period included non-residential piped gas end users, Shanghai Jiading Water Authority, and a sub-contractor for pipeline construction projects. Revenue generated from our largest customer accounted for 3.3%, 3.4%, 2.8% and 2.0% of our total revenue in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

None of our Directors, their associates or any Shareholder who, to the knowledge of our Directors owns more than 5% of our Company’s share capital as of the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period.

SUPPLIERS

Our suppliers for piped gas business are upstream gas distributors. Our piped gas supplier in Shanghai is Shanghai Gas Group, who is our minority shareholder and holds a 50% equity interest in Shanghai Dazhong Gas. For further details, please refer to the section “History, Development and Corporate Structure — Our Shareholding and Corporate Structure — Shanghai Gas Group”. Our piped natural gas supplier in Nantong Area is CNPC. In the piped gas supply industry, NDRC sets and adjusts the gateway station prices, which serve as guideline prices. Local competent government authorities then set piped gas procurement prices within their jurisdictions with reference to the gateway station prices set by NDRC. For further details of CNPC, please refer to “Business — Our Public Utilities Service Business — Piped Gas Supply Operations — Piped Gas Procurement — Piped gas supplier in Nantong Area”. In Shanghai, guidance procurement price of piped gas is set by Shanghai Construction Administration. In Nantong Area, our procurement price of piped gas is negotiated with the upstream piped gas supplier pursuant to the benchmark gateway station prices. Our Directors confirm our dealings with Shanghai Gas Group and CNPC are at arms-length. In our piped gas supply business we also engage third-party professional designing companies and construction companies which act as contractors for our pipeline construction projects. We entered into supply contracts with our upstream piped gas suppliers. For more details of our contracts with local governments, please refer to the section “— Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement”.

We conduct our wastewater treatment and public infrastructure projects business mainly through BT and BOT contracts. We mainly engage third-party professional designing companies and construction companies who act as contractors during the construction phase of such projects. We have long-term relationship with two of our subcontractors, one of which was also among our top five customers in 2014 due to the construction projects we engaged it to do. For more details please refer to “— Customers”. Since 2006, we entered into a long-term repair and maintenance contract with an independent third-party contractor for Xiangyin Road tunnel. For more details, please refer to “— Our Public Utility Service Business — Public infrastructure projects”.

Our top five suppliers accounted for 86.2%, 91.0%, 82.2% and 92.5% of our total cost of sales in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our largest supplier accounted for 67.7%, 64.8%, 63.3% and 67.5% of our total cost of sales in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. None of our Directors, their associates or any Shareholder except for Shanghai Gas Group who, to the knowledge of our Directors, owns more than 5% of our Company’s share capital as of the Latest Practicable Date, had any interest in any of our five largest suppliers during the Track Record Period.

ENVIRONMENT AND SAFETY

Environment

We are subject to various PRC environmental laws and regulations, including the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Environment Impact and the Law of the PRC on the Prevention and Control of Water Pollution. For further details of these requirements, please refer to the section “Regulatory Overview”.

Our Directors confirm that our expenses in relation to environment compliance were immaterial during the Track Record Period, and expect such expenses will remain immaterial in 2016. Except as disclosed elsewhere in the prospectus, we did not have any material environment-related incident and had not been penalized for over RMB100,000 by competent government authority for any environment-related violation during the Track Record Period and as of the Latest Practicable Date. For more details, please refer to “— Compliance and legal proceedings”.

Safety

Pursuant to relevant PRC laws and regulations, we are required to provide our employees a safe working environment, which includes, among other things, providing adequate protective clothing and gear, providing safety education and training and having dedicated safety management personnel. We also conduct regular inspection and maintenance checks on our equipment to ensure they meet the applicable national or industrial standards in respect of their design, manufacturing, installation and use.

We believe our health and safety control measures are adequate and comply with applicable laws and regulations in all material respects. During the Track Record Period and as of the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment and the relevant PRC authorities had not imposed any sanctions or penalty on us for incidents of non-compliance of any health and safety laws or regulations in China.

RESEARCH AND DEVELOPMENT

Due to the nature of our business, we did not incur any significant research and development expenses during the Track Record Period, and our Directors do not expect to incur any such significant expenses in the near future.

LICENSE AND PERMIT

As advised by our PRC legal advisers, as of the Latest Practicable Date, except as disclosed in this prospectus, our Company had obtained all the necessary licenses, permits and certificates from the appropriate and competent authorities as required under the laws,

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rules and regulations of the PRC to operate our business, and had been in full compliance with all relevant laws and regulations since the incorporation of the respective companies in our Group. For more details, please refer to the section “Regulatory Overview”.

COMPETITION

We are one of the three suppliers of piped gas in operation in Shanghai Urban Area.

The natural gas supply business has significant entry barrier as natural gas suppliers need to obtain concession arrangements from the competent local governments, secure natural gas procurement arrangement from a limited number of potential upstream suppliers, and construct the pipeline network. We believe the market participants in Shanghai and Nantong Area will likely remain unchanged for the foreseeable future. The other two major piped gas supply service providers in Shanghai are North Shanghai Gas and Pudong Gas. Due to the nature of the piped gas supply business, we do not expect significant competition from these two service providers in South Puxi Area where we currently operate. Since we expanded our piped gas supply business into Nantong Area in 2003, we have established a leading position in that market and is currently the dominant piped gas supplier in Nantong urban area with approximately 80% of market share in terms of supply volume, according to the CIC Report. Through years of natural gas supply operations, we have built a valuable brand name, accumulated operational experience and maintained beneficial relationship with the local government. Our operational experience is scalable which we believe will help us secure piped gas supply business in other regions into which we decide to expand.

Historically, the only wastewater treatment entities in operation in the PRC were SOEs, which continue to dominate the market. Since the government opened the wastewater treatment industry to private investment in 2000, private companies have gradually gained market share. Compared with large-scale SOEs with long operating history, private wastewater treatment companies like us tend to have the advantage of high operational efficiency and strong adaptive abilities. Our wastewater treatment operations in Shanghai ranked second in terms of treatment volume with a market share of 2.04% in Shanghai in 2014, according to the CIC Report. Our wastewater treatment operations in Xuzhou Area ranked first in terms of treatment volume with a market share of 20.74% in 2014, according to the CIC Report. Entry barriers of wastewater treatment business include availability of concession rights and requirement of operational and technology experience.

INSURANCE

We have maintained certain insurance for our assets and operations, such as insurance for piped gas related personal injuries and asset losses. Our insurance policies cover personal injuries and asset losses caused by accidents at our public utility facilities or operations. We review our insurance policies periodically.

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During the Track Record Period and as of the Latest Practicable Date, we did not receive any complaints from our customers or penalties from the relevant authorities in relation to the insurance coverage for construction or operation of our projects. We believe that our insurance coverage is in line with industry practice and complies with relevant laws and regulations.

INTELLECTUAL PROPERTIES

As of the Latest Practicable Date, we had four registered patents and two registered trademarks in the PRC and two registered trademarks in Hong Kong. We have entered into a trade mark agreement with Dazhong Transportation Group pursuant to which Dazhong Transportation Group authorized us to use the “Dazhong” brand within the authorized scope free of consideration. In addition, we generally do not enter into confidentiality agreements with our personnel.

We were not aware of any material infringement of our intellectual property rights during the Track Record Period and as of the Latest Practicable Date, and we believe that we have taken reasonable measures to prevent infringement of our intellectual property rights. We are not aware of any pending or threatened claims against us or our subsidiaries relating to the infringement of intellectual property rights that we license from third parties.

EMPLOYEES

As of June 30, 2016, we had 2,139 full-time employees. The table below sets forth a breakdown of our employees by department as of June 30, 2016.

Department	Number of employees	%
Management	204	9.5
Administrative staff	147	6.9
Technical staff	1,132	52.9
Sales staff	489	22.9
Production staff	167	7.8
Total	<u>2,139</u>	<u>100.0</u>

As of June 30, 2016, 1,367, or 63.9% of our total employees, were located in Shanghai.

Compensation for our employees includes basic wages, bonuses and other staff benefits. We also provide social insurance and other benefits to our employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing and personal accident insurance pursuant to PRC labor law and relevant requirements of the national and local governments. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by us and the employees at a certain proportion in accordance with the relevant local requirements. The work

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injury insurance and maternity insurance are generally paid by us. We review the performance of our employees annually, the results of which are applied in his or her annual salary review and promotion appraisal. We also provide on-the-job training to our employees from time to time. Our employee expenses was RMB444.6 million, RMB432.2 million, RMB453.3 million and RMB232.4 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

During the Track Record Period and as of the Latest Practicable Date, we did not have any dispute with, or complaint from our employees that might materially and adversely affect our business operations.

SALES AND MARKETING

As a public utility service company, we generally do not engage any sales and marketing activities. In our piped gas supply business, property developers of residential buildings and owners or occupants of industrial and commercial buildings generally approach us with request of supply services. We generally secure our engagements from our local government customers for wastewater treatment and public infrastructure projects through public bidding.

PROPERTIES

Our head office is located at 1515 Zhongshan West Road, Shanghai, which is rented by us from a subsidiary of Dazhong Transportation Group.

As of June 30, 2016, our property interests represented approximately 0.8% of our total assets. Accordingly, this prospectus is exempt from the requirements under the Hong Kong Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Hong Kong Listing Rules, a prospectus is exempt from this requirement if the carrying amounts of a listing applicant's property activities and non-property activities are below 1.0% and 15.0%, respectively. A similar exemption applies under section 6 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect to the requirement under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and under paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Owned properties and land use rights

As of June 30, 2016, we owned 93 properties with an aggregate gross floor area of approximately 35,081.49 sq.m. and gross floor areas ranging from approximately 5.41 sq.m. to 4,462.65 sq.m. In addition to the land occupied by our owned properties, we obtained land use rights for 11 parcels of land with a total site area of 220,307.19 square meters. Our owned properties and land use rights are primarily used for plants and offices of our subsidiaries.

BUSINESS

Owned properties and land use rights with valid titles

We have obtained valid building ownership certificates for 84 properties with an aggregate gross floor area of approximately 27,721.14 sq.m., of which the land occupied by the 72 properties with an aggregate gross floor area of 18,714.56 sq.m. has been granted the land use rights, the land occupied by the other 11 properties with an aggregate gross floor area of 7,397.36 sq.m. has been allocated the land use rights and the land occupied by one property with the gross floor area of 1,609.22 sq.m. is located on group-owned land. In addition to the land occupied by the above mentioned properties, we have also obtained land use rights for 13 parcels of land, of which four parcels of land with an aggregate gross floor area of 63,196.74 sq.m. has been granted the land use rights and the other seven parcels of land with an aggregate gross floor area of 157,110.45 sq.m. has been allocated with land use rights.

Our PRC legal advisers, confirmed that, with respect to the granted land use rights and the properties on the land, (i) we are the legal owner of such properties and we have the rights to occupy, utilize, generate income from and dispose of such properties (including but not limited to transfer, lease and mortgage), and (ii) none of these owned properties was subject to potential or actual property disputes, mortgage, third party interests or other limitations on rights. With respect to the allocated land use rights and the properties on the land, our PRC legal advisers confirmed that we are the legal owner of such properties and we have the rights to occupy and use the properties, however, the transfer, donation, mortgage or disposal of the properties otherwise should be subject to the approval from the competent authorities and the payment of the land use premiums.

Owned properties with defective titles

We have not obtained the land use rights certificates and the building ownership certificates for nine properties. Seven of the nine properties with a gross floor area of approximately 4,939 sq.m., representing approximately 14.08% of the aggregate gross floor area of the properties we owned, do not have proper titles. The other two properties which are used as service branches with an aggregate gross floor area of approximately 2,421.35 sq.m. have not completed the title transfer. Our Directors believe such properties are not crucial to our operations and we can find replacement properties without incurring significant cost if necessary. The defective titles were caused by various reasons, such as lack of original documents when the property was assigned to us by local government, overall construction unfinished. We use most of these nine properties as service branches for providing accounts opening, collecting payments, reporting for repair and other services to our piped gas end users.

Our PRC legal advisers are of the view that (i) we are entitled to occupy and use such properties but we may not freely transfer, mortgage or dispose of them until we obtain the corresponding land use right certificates, and building ownership certificates; and (ii) if the underlying land is auctioned or disposed of due to the defective land use right, the properties

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located on such land would also be auctioned or disposed of at the same time in accordance with the relevant PRC laws and regulations. In such case, we will lose the ownership of such properties but may receive the amount from the disposal of the properties.

While we are unable to ascertain when the relevant authorities will grant us the relevant title certificates, we are using our commercially reasonable efforts to obtain the relevant title certificates for all of such properties. In the event we are unable to obtain such title certificates and are required to relocate, we will be able to find substituted place nearby and although we may incur additional relocation costs therefrom, our Directors and PRC legal advisers confirmed that there would be no material impact on our business or financial condition or on this Global Offering.

We have not been notified by any government authority or third parties to cease our use of the properties with defective titles for our business activities, or pay fines or make compensations. In addition, we have been advised by our PRC legal advisers that we can legally occupy or use the nine owned properties with defective titles. Given the above, our Directors believe that the above nine owned properties with defective titles are not crucial to, and will not have a material impact on our business or financial condition.

In addition, our Directors are also of the view that such properties with defective titles are generally in good condition and are safe for us to use. Given the fact that the area of each property is relatively small and they are mainly used as service branches, we believe we can relocate from the nine properties without any significant disruption to our operations and at minimal cost.

Leased properties

As of June 30, 2016, we leased nine properties in the PRC with an aggregate gross floor area of approximately 4,310.27 square meters. Our leased properties are primarily used for facilities and offices, with a gross floor area ranging from approximately 20 square meters to 1,482 square meters. Our PRC legal advisers confirmed that (i) we are entitled to occupy and use the leased properties legally and validly; (ii) the landlords have the legal rights to lease the properties to us; and (iii) the legal agreements shall be binding on both parties.

COMPLIANCE AND LEGAL PROCEEDINGS

On July 29, 2016, Xuzhou Fountainhead Sewage received an administrative decision issued by the Xuzhou City Environmental Protection Bureau dated July 15, 2016, pursuant to which approximately RMB1.8 million penalty was imposed on Xuzhou Fountainhead Sewage for discharging wastewater not meeting the required quality standards at the Jiawang plant on April 18, 2016. Prior to Xuzhou City Environmental Protection Bureau's collection of discharged sample for inspection on April 18, 2016, we sent emergent requests for action to Jiawang District Environmental Protection Bureau on March 28 and April 16, 2016, respectively, stating that as a result of a cleanse of wastewater pipelines, the incoming wastewater received at the

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Jiawang plant contained a high concentration of dredge and multiple parameters of such incoming wastewater significantly exceeded the maximum pollution level for incoming wastewater as provided in the relevant concession agreement. We believe such incidents referred to in our emergent requests was the main reason for the discharging wastewater not meeting the required quality standards at Jiawang plant.

The treated wastewater of Jiawang plant meets the relevant standards since April 19, 2016. Xuzhou Fountainhead Sewage paid the penalty in full on August 5, 2016 and does not expect the foregoing occurrence to have any material adverse impact on its financial results.

To further incentivize the management of Xuzhou Fountainhead Sewage to improve operational efficiency, we transferred 51% equity interests in Xuzhou Fountainhead Sewage to the management of Xuzhou Fountainhead Sewage for a total consideration of RMB12.2 million pursuant to a share transfer agreement dated July 14, 2016. For more details, please refer to the section “History, Development and Corporate Structure — History and Development — Disposals after June 30, 2016 — Disposals of 51% Equity Interests in Xuzhou Fountainhead Sewage”.

Except as disclosed above, during the Track Record Period and as of the Latest Practicable Date, we had complied with applicable PRC laws and regulations in all material aspects and were not subject to any government fine of RMB100,000 or more.

As of the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was a party to any litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations, and no such material litigation, arbitration or administrative proceedings have been threatened against our Company or any of our subsidiaries.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (each, a “**Cornerstone Investment Agreement**”) with certain investors (each, a “**Cornerstone Investor**”), who have agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of an aggregate of US\$140 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee).

Assuming an Offer Price of HK\$3.35, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by the Cornerstone Investors would be 324,123,000 H Shares, representing approximately 67.68% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 11.17% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The total number of H shares to be allocated to the Cornerstone Investors and the relevant percentages set out herein are subject to adjustment, if any, pursuant to the clawback mechanism and the Rule 8.08(3) of the Listing Rules as mentioned below. The relevant information in respect of the allocation will be disclosed in the allotment results announcement.

Assuming an Offer Price of HK\$3.80, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by the Cornerstone Investors would be 285,741,000 H Shares, representing approximately 59.66% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 9.84% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised).

Assuming an Offer Price of HK\$4.25, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by the Cornerstone Investors would be 255,486,000 H Shares, representing approximately 53.34% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 8.80% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised).

In the event of a reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation”, the Company and the Joint Representatives may allocate the number of Offer Shares to be subscribed by the Cornerstone Investors in a manner such that the total number of Offer Shares to be subscribed by the Cornerstone Investors in aggregate would represent approximately the same proportion of the total number of Offer Shares offered under the International Offering as if such reallocation did not take place. None of the Cornerstone Investors will subscribe for such number of H Shares which will exceed 10% of the total issued share capital of the Company upon the completion of the Global Offering and assuming no exercise of the Over-allotment Option.

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Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of H Shares offered in the Global Offering if certain prescribed total demand levels are reached. The initial H Shares available for subscription under the Hong Kong Public Offering represents 10% of the total number of the H Shares initially available under the Global Offering. In the event of oversubscription under the Hong Kong Public Offering, the Joint Representatives shall apply a clawback mechanism following the closing of the application lists on the following basis:

- (a) If the number of Hong Kong Public Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Hong Kong Public Offer Shares initially available for subscription under the Hong Kong Public Offering, then H Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of H Shares available under the Hong Kong Public Offering will be 143,682,000 H Shares, representing 30% of the H Shares initially available under the Global Offering.
- (b) If the number of Hong Kong Public Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Hong Kong Public Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of H Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the H Shares available under the Hong Kong Public Offering will be 191,576,000 H Shares, representing 40% of the H Shares initially available under the Global Offering.
- (c) If the number of Hong Kong Public Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Hong Kong Public Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of H Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the H Shares available under the Hong Kong Public Offering will be 239,470,000 H Shares, representing 50% of the H Shares initially available under the Global Offering.

If the total demand for shares in the Hong Kong Public Offering falls with the respective category of (a), (b) or (c) and the number of Offer Shares available in the Hong Kong Public Offering is less than 30%, 40% or 50% of the Global Offering, respectively, the number of H Shares to be allocated to ENN Energy China Investment Limited may be deducted to satisfy the respective public demands under the Hong Kong Public Offering as stipulated under the Listing Rules.

CORNERSTONE INVESTORS

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and independent of each other, not our connected person or an existing shareholder of the Company or their respective associates. Each of the Cornerstone Investors has represented, warranted and undertaken to us that, neither it nor its close associates held or would hold any of our issued A Shares during the period from the date of the relevant Cornerstone Investment Agreements and ending on the Listing Date.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around December 2, 2016.

The cornerstone placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and, will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective Cornerstone Investment Agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company (as defined under the Hong Kong Listing Rules).

Pursuant to Rule 8.08(3) of the Listing Rules, no more than 50% of the H Shares in public hands on the Listing Date can be beneficially owned by the three largest public shareholders of H Shares. In the event that the Offer price is set at the low-end of the indicative Offer Price range set out in this prospectus, to satisfy the requirement under Rule 8.08(3) of the Listing Rules, pursuant to the Cornerstone Investment Agreements, China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited and the Company have the right to adjust the allocation of the number of H Shares to be purchased by the Cornerstone Investors amongst the top three largest public shareholders of H Share.

The total investment amount invested by and the total number of H Shares to be allocated to ENN Energy China Investment Limited, Investstar Limited and New China Asset Management (Hong Kong) Limited, being the top three Cornerstone Investors (in terms of investment amount), assuming the Offer Price is at HK\$3.35, being the low-end of the indicative Offer Price range set out in this prospectus, and the adjustments required to comply with Rule 8.08(3) of the Listing Rules as mentioned above, will be reduced from Hong Kong dollars equivalent of US\$110 million to US\$103 million and from 254,669,000 H Shares to 238,989,000 H Shares, respectively, representing approximately 49.9% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 8.2% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

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The total number of H shares to be subscribed by the Cornerstone Investors and the total investment amount invested by the Cornerstone Investors are subject to adjustment, if any, pursuant to the clawback mechanism and the Rule 8.08(3) of the Listing Rules as mentioned above. The relevant information in respect of the allocation will be disclosed in the allotment results announcement.

CORNERSTONE INVESTORS

We have entered into Cornerstone Investment Agreements with the following Cornerstone Investors in respect of the cornerstone placing.

The information about our Cornerstone Investors set forth below has been provided by the relevant Cornerstone Investors in connection with the cornerstone placing:

ENN Energy China Investment Limited

ENN Energy China Investment Limited (“**ENN**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$60 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee), subject to the adjustment pursuant to the clawback mechanism and Rule 8.08(3) of the Listing Rules as mentioned above. The relevant information in respect of the allocation will be disclosed in the allotment results announcement. Assuming an Offer Price of HK\$3.35, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by ENN would be no more than 138,911,000 H Shares, representing approximately 29.00% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 4.79% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The total number of H shares to be allocated to and the total investment amount to be invested by ENN are subject to adjustment, if any, pursuant to the clawback mechanism and Rule 8.08(3) of the Listing Rules as mentioned above. Assuming an Offer Price of HK\$3.80, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by ENN would be 122,461,000 H Shares, representing approximately 25.57% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 4.22% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). Assuming an Offer Price of HK\$4.25, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by ENN would be 109,495,000 H Shares, representing approximately

CORNERSTONE INVESTORS

22.86% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 3.77% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The H Shares to be allocated to ENN are subject to the clawback mechanism set out above.

ENN is a company incorporated in Hong Kong on February 10, 2012 and its principal business is investment holding. ENN is wholly-owned by ENN Energy Holdings Limited (stock code: 02688.HK), which is listed on the main board of the Hong Kong Stock Exchange. ENN Energy Holdings Limited is principally engaged in gas supply business in the PRC, including but not limited to the sales of piped gas, gas connection, construction and operation of vehicles gas refuelling stations, wholesale of gas, sales of other energy and sales of gas appliances and materials. ENN Energy Holdings Limited is ultimately beneficially owned as to 30.47% by Mr. Wang Yusuo as at June 30, 2016. Mr. Wang Yusuo is the chairman, executive director substantial shareholder and controlling shareholder of ENN Energy Holdings Limited.

Investstar Limited

Investstar Limited (“**Investstar**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$25 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee), subject to the adjustment pursuant to Rule 8.08(3) of the Listing Rules as mentioned above. Assuming an Offer Price of HK\$3.35, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Investstar would be no more than 57,879,000 H Shares, representing approximately 12.08% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.99% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The total number of H Shares to be allocated to and the total investment amount to be invested by Investstar are subject to adjustment, if any, pursuant to Rule 8.08(3) of the Listing Rules as mentioned above. Assuming an Offer Price of HK\$3.80, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Investstar would be 51,025,000 H Shares, representing approximately 10.65% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.76% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). Assuming an Offer Price of HK\$4.25, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Investstar would be 45,622,000 H Shares, representing approximately 9.53% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.57% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The H Shares to be allocated to Investstar are not subject to the clawback mechanism set out above.

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Investstar is a company incorporated in Hong Kong in 2004 and its principal activity is securities investment. Investstar is an indirect wholly-owned subsidiary of The Hong Kong and China Gas Company Limited (“**Towngas**”, stock code: 00003.HK). Founded in 1862, Towngas was the first public utility and one of the largest energy suppliers in Hong Kong, supplying town gas to over 1.8 million customers in Hong Kong. The core businesses include production and distribution of gas, marketing and sale of gas, sale of gas appliances and after-sales services. Towngas also operates gas business in Mainland China together with its listed subsidiary Towngas China Company Limited (stock code: 01083.HK). As of December 31, 2015, Towngas operates 222 projects in China, including piped city-gas projects, upstream and midstream developments, water and wastewater treatment schemes, natural gas refilling stations, as well as new energy projects, across 25 provinces, municipalities and autonomous regions throughout the country, serving over 20 million customers.

New China Asset Management (Hong Kong) Limited

New China Asset Management (Hong Kong) Limited (“**NCAM**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$25 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee), subject to the adjustment pursuant to Rule 8.08(3) of the Listing Rules as mentioned above. Assuming an Offer Price of HK\$3.35, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by NCAM would be no more than 57,879,000 H Shares, representing approximately 12.08% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.99% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The total number of H Shares to be allocated to and the total investment amount to be invested by NCAM are subject to adjustment, if any, pursuant to Rule 8.08(3) of the Listing Rules as mentioned above. Assuming an Offer Price of HK\$3.80, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by NCAM would be 51,025,000 H Shares, representing approximately 10.65% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.76% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). Assuming an Offer Price of HK\$4.25, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by NCAM would be 45,622,000 H Shares, representing approximately 9.53% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.57% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The H Shares to be allocated to NCAM are not subject to the clawback mechanism set out above.

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NCAM is an asset management arm of New China Life Insurance Company Limited, which is a major nationwide life insurance company in China and is dual-listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange (stock code: 01336.HK; 601336.SH). The business scope of NCAM includes asset management and related services permitted by laws and regulations. NCAM is a Licensed Corporation regulated by the Hong Kong Securities and Futures Commission and is licensed to carry out Type 9 (Asset Management) and Type 4 (Advising on Securities) regulated activities.

Fung Yu Holdings Limited

Fung Yu Holdings Limited (“**Fung Yu**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$20 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee). Assuming an Offer Price of HK\$3.35, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Fung Yu would be 46,303,000 H Shares, representing approximately 9.67% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.60% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). Assuming an Offer Price of HK\$3.80, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Fung Yu would be 40,820,000 H Shares, representing approximately 8.52% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.41% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). Assuming an Offer Price of HK\$4.25, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Fung Yu would be 36,498,000 H Shares, representing approximately 7.62% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 1.26% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The H Shares to be allocated to Fung Yu are not subject to the clawback mechanism set out above.

Fung Yu is a company incorporated in the British Virgin Islands on January 7, 2014 and its principal business is investment holding. Fung Yu is the controlling shareholder of our associated company, Suchuang Gas, as at June 30, 2016. Fung Yu is wholly owned by Mr. Su Aping (蘇阿平) (“**Mr. Su**”), who is the chairman and an executive director of Suchuang Gas.

Hungary CRE New Energy Equipment Co. Kft

Hungary CRE New Energy Equipment Co. Kft (“**Hungary CRE**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$10 million (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee). Assuming an Offer Price of HK\$3.35, being the low-end of the indicative Offer Price range

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set out in this prospectus, the total number of H shares to be subscribed by Hungary CRE would be 23,151,000 H Shares, representing approximately 4.83% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 0.80% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). Assuming an Offer Price of HK\$3.80, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Hungary CRE would be 20,410,000 H Shares, representing approximately 4.26% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 0.70% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). Assuming an Offer Price of HK\$4.25, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of H shares to be subscribed by Hungary CRE would be 18,249,000 H Shares, representing approximately 3.81% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 0.63% of our total issued share capital immediately upon completion of the Global Offering (assuming the Over-allotment option is not exercised). The H Shares to be allocated to Hungary CRE are not subject to the clawback mechanism set out above.

Hungary CRE was incorporated in Hungary in September 2014. It is a subsidiary of CRRC Urban Traffic Co., Ltd. (中車城市交通有限公司), and is mainly engaged in manufacturing of lifting and handling equipment.

Conditions Precedent

The subscription obligation of each Cornerstone Investor is subject to, amongst other things, the following conditions precedent:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into, having become effective and unconditional by no later than the time and date as specified (in accordance with their respective original terms, as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) in these underwriting agreements;
- (ii) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (iii) the Listing Committee of the Hong Kong Stock Exchange having granted the approval for the listing of, and permission to deal in, the H Shares and that such approval or permission has not been revoked;
- (iv) the respective representations, warranties, undertakings, confirmations and acknowledgements of the relevant Cornerstone Investor under the relevant Cornerstone Investment Agreement are accurate and true in all material respects and

CORNERSTONE INVESTORS

not misleading and there being no material breach of the relevant Cornerstone Investment Agreement on the part of the relevant Cornerstone Investor; and

- (v) no relevant laws or regulations shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated relevant cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

Restrictions on the Cornerstone Investors' Investment

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company, the Joint Representatives and the Joint Sponsors, it will not, and will cause its affiliates not to, whether directly or indirectly, at any time during the period of six (6) months following the Listing Date, dispose of (as defined in the relevant Cornerstone Investment Agreement) any of the relevant H Shares or any interest in any company or entity holding any of the relevant H Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor provided that, amongst other requirements, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will abide by such restrictions imposed on the Cornerstone Investor.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain agreements and transactions with our connected persons in our ordinary and usual course of business, which are expected to continue after the Listing and will constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules upon Listing.

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Set out below is a summary of the continuing connected transactions of our Group which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

1. Lease Agreement

Description of transaction

Shanghai Dazhong Gas, our subsidiary, has leased a property from Shanghai Gas Group as its office premise pursuant to a lease agreement dated January 15, 2016 (the "**Lease Agreement**"). The Lease Agreement is valid for a period of one year commencing from January 1, 2016 to December 31, 2016.

Historical transaction amount

For the years ended December 31, 2013, 2014 and 2015, and the six months ended June 30, 2016, the total rental paid by Shanghai Dazhong Gas for its use of the office premises and the gas pipe facilities was approximately RMB12.7 million, RMB11.5 million, RMB5.7 million and RMB3.0 million, respectively.

Hong Kong Listing Rule implications

Shanghai Gas Group holds 50% of the equity interests in Shanghai Dazhong Gas and is a substantial shareholder of Shanghai Dazhong Gas. Accordingly, Shanghai Gas Group is our connected person pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules. Therefore, the transaction under the Lease Agreement between Shanghai Dazhong Gas and Shanghai Gas Group will constitute continuing connected transaction of our Group upon Listing.

CONNECTED TRANSACTIONS

As the applicable percentage ratios (other than the profits ratio) (as defined under the Hong Kong Listing Rules) for the Lease Agreement are expected to be less than 0.1% on an annual basis, the transaction under the Lease Agreement is exempt from the reporting, annual review, announcement and the independent shareholders' approval requirements pursuant to Rule 14A.76(1)(a) of the Hong Kong Listing Rules.

2. Supply of Natural Gas to our Connected Persons

Description of transaction

We sell natural gas to our retail customers in Shanghai in the ordinary and usual course of our business. Our retail customers include certain of our Directors, Supervisors, chief executive and their respective associates. Each of the above persons is our connected person under Chapter 14A of the Hong Kong Listing Rules. We expect to continue to provide natural gas to our connected persons following the Listing, which will constitute continuing connected transactions of our Group upon Listing.

Hong Kong Listing Rule implications

The natural gas are provided to our connected persons with reference to prevailing market rates and on normal commercial terms that are comparable to, or no more favourable than, those offered by us to Independent Third Parties in our ordinary and usual course of business. The natural gas is supplied to these connected persons for their private use or consumption, and is not for resale or used by the connected persons for any of his/her businesses or contemplated businesses. The natural gas is consumed or used by the connected persons in the same state as when it is supplied to the connected persons. Therefore, these transactions will be exempt from the reporting, annual review, announcement and the independent shareholders' approval requirements pursuant to Rule 14A.97 of the Hong Kong Listing Rules.

3. Short term loan agreements

Description of transaction

Shenergy Group Financial Company Limited* (申能集團財務有限公司) (“**Shenergy Financial**”) has granted Shanghai Dazhong Gas, our subsidiary, a one-year and unsecured loan in the amount of RMB200 million at an interest rate of 3.915% commencing from December 30, 2015 to December 29, 2016 (the “**2015 Loan Agreement**”). Shenergy Financial has also granted Shanghai Dazhong Gas, a one-year and unsecured loan in the amount of RMB100 million at an interest rate of 3.915% commencing from March 29, 2016 to March 28, 2017 (together with the 2015 Loan Agreement, the “**Loan Agreements**”).

CONNECTED TRANSACTIONS

Historical transaction amount

For the year ended December 31, 2015 and the six months ended June 30, 2016, the total interest expense of by Shanghai Dazhong Gas under the Loan Agreements was approximately RMB43,000 and RMB4,981,000.

We had also entered into other loan agreements with Shenergy Financial during the Track Record Period. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total interest expense of these loans was approximately RMB3,421,000, RMB5,404,000, RMB14,293,000 and RMB392,000.

Hong Kong Listing Rule implications

Shenergy Financial is a subsidiary of Shenergy Group, which is the sole shareholder of Shanghai Gas Group, a substantial shareholder of Shanghai Dazhong Gas. Accordingly, Shenergy Financial is an associate of Shanghai Gas Group and a connected person of the Company under Rule 14A.07(4) of the Hong Kong Listing Rules. Therefore, the Loan Agreements will constitute continuing connected transactions in the form of financial assistance from a connected person in favor of the Group. As the Loan Agreements are conducted on normal commercial terms or better and are not secured by any assets of the Group, the Loan Agreements are fully-exempted from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

Set out below is a summary of the continuing connected transaction of our Group which is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

4. Master Gas Purchase Agreements with Shanghai Gas Group

Description of transaction

Shanghai Dazhong Gas purchases piped gas from Shanghai Gas Group in its ordinary course of business. As Shanghai Gas Group is a connected person of our Company pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules, the purchase of piped gas by Shanghai Dazhong Gas from Shanghai Gas Group will constitute continuing connected transactions of our Group upon Listing.

CONNECTED TRANSACTIONS

On December 16, 2015, Shanghai Dazhong Gas entered into a framework gas purchase agreement (the “**Framework Agreement**”) and a supplemental agreement (the “**Supplemental Agreement**”, together with the Framework Agreement, the “**Master Gas Purchase Agreements**”) with Shanghai Gas Group in connection with the purchase of piped gas. The purpose of the Supplemental Agreement is for the parties to confirm and agree on the expected annual supply volume of piped gas and other volume based parameters each year. For more details, please refer to the section headed “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement”.

Historical transaction amounts

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, Shanghai Dazhong Gas purchased approximately RMB2,342.6 million, RMB2,392.1 million, RMB2,462.3 million and RMB1,450.2 million worth of piped gas from Shanghai Gas Group, respectively.

Annual Cap

Based on the annual plan set out in the Supplemental Agreement, and taking into account the expected increase in the number of our piped gas customers, the Master Gas Purchase Agreements are subject to an annual cap of RMB2,600 million, RMB2,660 million and RMB2,720 million for the three years ending December 31, 2016, 2017 and 2018. Since it is difficult to estimate the piped gas consumption over an extended period, according to the Framework Agreement and in line with the normal business practice in piped gas supply industry in Shanghai, additional five-year annual plans for the amount of piped gas to be supplied in the future shall be further agreed between the parties before December 31, 2018, 2023 and 2028, respectively.

According to the relevant PRC laws and regulations, the price of the piped gas we purchase from Shanghai Gas Group is fixed by the relevant local competent authorities. For more details, please refer to the section headed “Business — Our Public Utility Service Business — Piped Gas Supply Operations”.

Term of the Master Gas Purchase Agreements

The Framework Agreement has a term of 20 years from January 1, 2014 to December 31, 2033. The Supplemental Agreement has a term from December 16, 2015 until December 31, 2018.

Hong Kong Listing Rule implications

Shanghai Gas Group is a connected person of our Company pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules. It is expected that the relevant applicable

CONNECTED TRANSACTIONS

percentage ratios (other than the profits ratio) (as defined under the Hong Kong Listing Rules) for the Master Gas Purchase Agreements will be more than 25% on an annual basis. Pursuant to Rule 14A.101 of the Hong Kong Listing Rules, as Shanghai Gas Group is a connected person at the subsidiary level of our Company, the transactions under the Master Gas Purchase Agreements will constitute continuing connected transactions for our Group subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

CONFIRMATION BY THE DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that all the continuing connected transactions disclosed in the section headed "Continuing Connected Transactions — Continuing connected transactions exempt from the reporting, annual review, announcement and the independent Shareholders' approval requirements" above have been entered into, and will be carried out in the ordinary and usual course of business of our Company, are on normal commercial terms or on terms no less favorable to us than terms available to Independent Third Parties, and are fair and reasonable and in the interests of the Group and our Shareholders as a whole.

Based on the factors that:

- (i) the supplier/buyer relationship between Shanghai Gas Group and us is determined and provided for under the Shanghai Gas Administrative Measures (上海市燃氣管理條例) which provides, among other things, that gas suppliers shall ensure uninterrupted, stable and safe gas supply to end users;
- (ii) a long-term agreement beyond three years is normal business practice in the piped gas supply industry in Shanghai; and
- (iii) we have been the sole piped gas supplier in the South Puxi Area since 2001, and currently serve approximately 1.8 million end user accounts. As such, it is necessary to have a long-term agreement to provide for a stable supply of piped gas to avoid a major consumer market disruption in the event of an interruption of the piped gas supply,

Our Directors (including the independent non-executive Directors) are of the view that the Master Gas Purchase Agreements with a term longer than three years are in line with normal business practice in the piped gas supply industry in Shanghai and the relevant continuing connected transactions under the Master Gas Purchase Agreements have been entered into, and will be carried out in the ordinary and usual course of business of our Group, are on normal commercial terms or on terms no less favorable to our Company than terms available to Independent Third Parties, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

CONNECTED TRANSACTIONS

The Directors (including the independent non-executive Directors) are also of the view that the proposed annual caps for the three years ending December 31, 2016, 2017 and 2018 for the abovementioned non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Since it is difficult to estimate the piped gas consumption over an extended period, pursuant to the Master Gas Purchase Agreements, five-year annual plans for the amount of piped gas to be supplied in the future shall be further agreed by the parties before December 31, 2018, 2023 and 2028, respectively, which is also in line with the normal business practice in piped gas supply industry in Shanghai. Further announcements will be made by the Company when the annual caps for the years beyond 2018 are fixed.

CONFIRMATION BY THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by our Company relating to the non-exempt continuing connected transactions set out above, and have also discussed these transactions with our Company. Based on the aforementioned due diligence work, the Joint Sponsors are of the view that (i) the Master Gas Purchase Agreements have been entered into, and will be carried out in the ordinary and usual course of business of our Group, are on normal commercial terms or on terms no less favorable to our Company than terms available to Independent Third Parties, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the proposed annual caps for the three years ending December 31, 2016, 2017 and 2018 for such continuing connected transactions are fair and reasonable and in the interests of the Shareholders as a whole. The Joint Sponsors are also of the view that the long-term nature of the Master Gas Purchase Agreements are in line with normal business practice in piped gas supply industry in Shanghai as it is for the benefit of the public in Shanghai to receive stable and uninterrupted piped gas supply as part of the city infrastructure.

WAIVER FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

We have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the announcement requirement under Chapter 14A of the Hong Kong Listing Rules in respect of the non-exempt continuing connected transactions set out above, subject to the condition that the aggregate value of each of these continuing connected transactions for each of the financial years ending December 31, 2018 shall not exceed the relevant annual cap amount. We will comply with the applicable requirements specified under Rule 14A.105 of the Hong Kong Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board currently consists of 11 Directors, among which six are executive Directors, one is a non-executive Director and four are independent non-executive Directors. The Directors are elected in general meetings. Directors serve for a term of three years and shall be subject to re-election upon retirement.

The Supervisory Committee consists of three Supervisors, including one employee representative Supervisor. Our employee representative Supervisor is elected at the staff representative assembly and the other two Supervisors are elected in general meetings of the Company. The Supervisors serve for a term of three years and shall be subject to re-election upon retirement. Our senior management is responsible for the management of day-to-day operations of our Company.

All of our Directors, Supervisors and senior management have met the qualification requirement under the relevant PRC laws and regulations for their respective positions.

Directors, Supervisors and Senior Management

The following table shows the key information of our Directors:

Name	Age	Date of joining the Company	Date of appointment as Director	Position(s)	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. YANG Guoping (楊國平)	60	January 1992	January 1, 1992	Executive Director, chairman of the Board and member of the nomination committee and remuneration and appraisal committee	Management of our Group and significant decision making	None
Mr. ZHONG Jinxing (鍾晉偉)	62	April 1999	April 8, 1999	Executive Director, vice chairman of the Board and chief financial officer	In charge of our financial management and internal control	None
Mr. LIANG Jiawei (梁嘉瑋)	43	September 2000	July 28, 2015	Executive Director and chief executive officer	In charge of our daily operations	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining the Company	Date of appointment as Director	Position(s)	Responsibility	Relationship with other Directors, Supervisors and senior management
Ms. YU Min (俞敏)	56	May 1999	July 28, 2015	Executive Director	In charge of our administrative matters and human resources	None
Mr. YANG Jicai (楊繼才)	58	May 2004	May 19, 2011	Executive Director and vice general manager	In charge of our environmental and municipal administration sector	None
Mr. ZHUANG Jianhao (莊建浩)	55	January 2002	April 29, 2014	Executive Director and vice general manager	In charge of our gas sector	None
Mr. LI Songhua (李松華)	56	May 2011	May 19, 2011	Non-executive Director (director designated by Shanghai Gas Group)	Participating in decision making procedures, but not the day-to-day management	None
Mr. CAI Jianmin (蔡建民)	72	June 2010	June 17, 2010	Independent non-executive Director, chairman of audit committee and member of the nomination committee and remuneration and appraisal committee	Advising on corporate governance, connected transactions, and remuneration of Directors and senior management, but not participating in the day-to-day management	None
Mr. Chow Siu Lui (鄒小磊)	56	April 2016	April 15, 2016	Independent non-executive Director	Advising on corporate governance, connected transactions, and remuneration of Directors and senior management, but not participating in the day-to-day management	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of		Position(s)	Responsibility	Relationship with other Directors, Supervisors and senior management
		Company	joining the appointment as Director			
Mr. YAN Xuehai (顏學海)	46	April 2014	April 29, 2014	Independent non-executive Director and member of the audit committee	Advising on corporate governance, connected transactions, and remuneration of Directors and senior management, but not participating in the day-to-day management	None
Mr. YAO Cho Fai Andrew (姚祖輝)	51	July 2015	July 28, 2015	Independent non-executive Director, chairman of the nomination committee and remuneration and appraisal committee, and member of the audit committee	Advising on corporate governance, connected transactions, and remuneration of Directors and senior management, but not participating in the day-to-day management	None

The following table shows the key information of the Supervisors of our Company:

Name	Age	Date of		Position(s)	Responsibility	Relationship with other Directors, Supervisors and senior management
		Company	joining the appointment as Supervisor			
Ms. CAO Yongqin (曹永勤)	59	April 1999	April 8, 1999	Chairman of the Supervisory Committee	In charge of the work of the Supervisory Committee	None
Ms. ZHAO Siyuan (趙思淵)	45	April 2014	April 29, 2014	Supervisor	Supervision of operation and financial activities	None
Mr. YANG Weibiao (楊衛標)	47	March 2004	July 10, 2015	Employee representative Supervisor	Supervision of operation and financial activities	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table shows the key information of the senior management of our Company:

Name	Age	Date of joining the Company	Date of appointment as senior management	Position(s)	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. LIANG Jiawei (梁嘉璋)	43	September 2000	June 18, 2015	Executive Director and chief executive officer	In charge of our daily operations	None
Mr. ZHONG Jinxing (鍾晉偉)	62	April 1999	May 8, 2015	Executive Director, vice chairman of the Board and chief financial officer	In charge of our financial management and internal control	None
Mr. YANG Jicai (楊繼才)	58	May 2004	August 29, 2005	Executive Director and vice general manager	In charge of our environmental and municipal administration sector	None
Mr. ZHUANG Jianhao (莊建浩)	55	January 2002	April 29, 2014	Executive Director and vice general manager	In charge of our gas sector	None
Ms. ZHAO Fei (趙飛)	38	February 2004	June 18, 2015	Secretary to the Board	In charge of our compliance matters	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Yang Guoping (楊國平), aged 60, joined our Company in January 1992 and was appointed as the chairman of the Board and a Director of our Company on January 1, 1992. Mr. Yang is a member of the nomination committee and the remuneration and appraisal committee. He has over 30 years of experience in corporate management. He was granted the title of senior economist by Shanghai Expertise Qualification Review Committee, Economics Series (Sphere of Production) (上海市經濟系列(生產領域)高級專業技術職務任職資格評審委員會) in April 1995. Mr. Yang is currently the council executive director (理事會常務理事) of China Association for Public Companies* (中國上市公司協會) and council vice president (理事會副會長) of The Listed Companies Association of Shanghai (上海上市公司協會). He is also the honorary president of the seventh Shanghai Youth Entrepreneurs Association (上海市青年企業家協會), vice chairman of the eighth commission of Shanghai Youth Federation (上海市青年聯合會) and vice president of China Taxicab and Livery Association (中國出租汽車暨汽車租賃協會). Mr. Yang was accredited as one of the top ten national outstanding young entrepreneurs* (全國十大傑出青年企業家) by the Central Communist Youth League Organization Department (共青團中央) and the China Youth Entrepreneurs Association (中國青年企業家協會) in November 1995. He was honored as national labor model* (全國勞動模範) by the PRC State Council* (中華人民共和國國務院) in April 2000. Mr. Yang was accredited as one of the outstanding quality individual in the PRC (Sphere of Production) (中國傑出質量人) by China Quality Association* (中國質量協會) in October 2005. He is accredited as China influential MBA individual* (中國MBA風雲人物) in December 2006. He also received the EY Entrepreneur Of The Year 2013* (安永企業家獎2013大獎) accredited by Ernst & Whinney in November 2013. Mr. Yang was honored as the Outstanding Entrepreneur (傑出企業家) by the first session of China (Shanghai) Listing Companies' Social Liabilities Summit (首屆中國(上海)上市公司企業社會責任峰會) in December 2015. Mr. Yang received a master degree in business administration from Shanghai Jiao Tong University (上海交通大學) in July 1997.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Other major work experience of Mr. Yang includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Coalgas Company* (上海煤氣公司)	Gas supply	From November 1973 to June 1983	Cleek from November 1973 to June 1976, youth league secretary from June 1976 to June 1979, and secretary and chief of the secretary department of the party committee from June 1976 to June 1983	Party affairs related work
Yangshupu Coalgas Factory* (上海楊樹浦煤氣廠)	Gas supply	From June 1983 to May 1984	Vice party secretary and deputy party secretary	Party affairs related work
Shanghai Taxi Company* (上海市出租汽車公司)	Taxi services	From November 1984 to October 1988	Party secretary	Party affairs related work
Dazhong Transportation Group (Shanghai A share listed; stock code: 600611)	Modern logistics and transportation	From October 1988 to present	General manager from October 1988 to April 2006 and chairman from April 2006 to present	In charge of the work of the board of directors and daily operations
Shanghai Jiaoda Onlly Co., Ltd. (上海交大昂立股份有限公司) (Shanghai A share listed; stock code: 600530)	Healthy food (保健食品)	From December 1997 to present	Vice chairman (常務副董事長) from December 1997 to October 2007 and chairman from October 2007 to present	In charge of the work of the board of directors

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Jiao Yun Group Co., Ltd. (上海交運集團股份有限公司) (Shanghai A share listed; stock code: 600676)	Transportation and logistics, spare parts manufacture, and travel services	From September 1998 to present	Director	Participating in significant decisions making
Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司) (Shenzhen listed; stock code: 002454)	Automobile air conditioning	From April 2008 to present	Director	Participating in significant decisions making
Everbright Securities Company Limited (光大證券股份有限公司) (Shanghai A share listed; stock code: 601788 and Hong Kong listed; stock code: 6178)	Finance related services	From September 2009 to present	Director	Participating in significant decisions making
Nanjiang Public Utilities Development Co., Ltd. (南京公用發展股份有限公司) (formerly Nanjing Zhongbei Group Co., Ltd. (南京中北(集團)股份有限公司)) (Shenzhen listed; stock code: 000421)	Transportation, energy industry, real estate, travel services, automobile services and finance	From May 2011 to present	Director	Participating in significant decisions making
Shanghai Shentong Metro Group Co., Ltd. (上海申通地鐵股份有限公司) (Shanghai A share listed; stock code: 600834)	Metro related services	From May 2014 to present	Independent non-executive director	Participating in decision making procedure, but not the day-to-day management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhong Jinxing (鍾晉倅), aged 62, joined our Company in April 1999 and was appointed as a Director of our Company on April 8, 1999. He is also the vice chairman of the Board and chief financial officer of our Company. Mr. Zhong used to be our chief financial officer from April 1999 to May 2011 before he was re-appointed as our chief financial officer on May 8, 2015. He also served as our secretary to the Board from May 2002 to April 2008 and our vice general manager from May 2011 to April 2014. Mr. Zhong has almost 33 years of experience in financial management. He was granted the title of accountant by Shanghai Title Reform Leading Group* (上海市職稱改革工作領導小組) in August 1988. Mr. Zhong obtained a bachelor degree in finance and accounting from Shanghai University (上海大學) in June 1991. He completed the master course in international economic and trade and investment environment from East China Normal University (華東師範大學) and graduated in July 1998.

Other major work experience of Mr. Zhong includes:

<u>Employer</u>	<u>Employer's principal business</u>	<u>Term of office</u>	<u>Position</u>	<u>Responsibility</u>
Shanghai Taxi Company* (上海市出租汽車公司)	Taxi services	From July 1982 to May 1991	Finance supervisor	Financial work
Dazhong Transportation Group (Shanghai A share listed; stock code: 600611)	Modern logistics and transportation	From May 1991 to present	Accountant and financial consolidated accountant from May 1991 to April 1999 and manager of audit department from January 1995 to April 1999 and supervisor from May 1997 to now	Financial management and supervision of operation and financial activities

Mr. Liang Jiawei (梁嘉瑋), aged 43, joined our Company in September 2000 and was appointed as a Director of our Company on July 28, 2015. He has been the chief executive officer of our Company since June 2015 and used to serve as the manager of our investment and development department from January 2006 to June 2016, our secretary to the Board from April 2008 to June 2015 and our vice general manager from April 2014 to June 2015. Mr. Liang has over 15 years of experience in corporate management. He was granted the title of economist (finance) by PRC Ministry of Personnel* (中華人民共和國人事部) in November 2000. He was accredited twice as outstanding secretary to the board* (優秀董事會秘書) by The Listed Companies Association of Shanghai (上海上市公司協會) in April 2013 and May 2015, respectively. Mr. Liang was accredited as the excellent secretary to the board of listed

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

companies* (上市公司優秀董秘) in the eighth, ninth and tenth selection of New Fortune Gold Medal Secretary to the Board* (新財富金牌董秘) held by the New Fortune magazine* (新財富雜誌). He was also accredited as one of the 100 Best Board Secretaries of companies Listed on the Main Board of China in 2013* (2013年度中國主板上市公司百佳董秘) by Securities Times* (《證券時報》) in September 2014. Mr. Liang obtained a bachelor degree in administrative management from Shanghai University (上海大學) in July 1995 and a master degree in business administration from Preston University in the United States in November 2002.

Other major work experience of Mr. Liang includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Jiao Yun Group Co., Ltd. (上海交運集團股份有限公司) (Shanghai A share listed; stock code: 600676)	Transportation and logistics, spare parts manufacture, and travel services	From July 1995 to March 1999	Clerk of the general managers' office	Management work
Dazhong Transportation Group (Shanghai A share listed; stock code: 600611)	Modern logistics and transportation	From April 1999 to September 2000 and from April 2016 to present	Project manager of investment and development department from April 1999 to September 2000 and director from April 2016 to present	Project management as project manager and participation in significant decisions making as director
Shanghai Jiada Only Co., Ltd. (上海交大昂立股份有限公司) (Shanghai A share listed; stock code: 600530)	Healthy food (保健食品)	From June 2015 to present	Director	Participating in significant decisions making

Ms. Yu Min (俞敏), aged 56, joined our Company in May 1999 and was appointed as Director of our Company on July 28, 2015. She used to be the manager of our human resources department from May 1999 to June 2016 and the employee representative Supervisor of our Company from May 2002 to July 2015. She has been our labor union president since August 2002, administrative director since April 2008 and party branch secretary since May 2011. Ms. Yu has over 30 years of experience in administrative management. She was granted the title of economist by Shanghai Title Reform Leading Group* (上海市職稱改革工作領導小組) in

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

December 1993. She is also accredited as Senior Operating Manager (高級經營師) by China General Chamber of Commerce* (中國商業聯合會) in May 2012. Ms. Yu obtained a master of science degree in training and development from Saint Joseph's University in the United States in July 2003.

Other major work experience of Ms. Yu includes:

<u>Employer</u>	<u>Employer's principal business</u>	<u>Term of office</u>	<u>Position</u>	<u>Responsibility</u>
Shanghai Yangshupu Coalgas Factory* (上海楊樹浦煤氣廠)	Gas supply	From September 1981 to May 1999	Youth league secretary and chief of organization and personnel department	In charge of daily operations of the youth league as well as employment and evaluation of management

Mr. Yang Jicai (楊繼才), aged 58, joined our Company in May 2004 and was appointed as a Director of our Company on May 19, 2011. He served as assistant to chief executive officer of our Company from May 2004 to May 2005 and has been the vice general manager of our Company since August 2005. Mr. Yang has over 32 years of experience in corporate management. He graduated from Shanghai Medical Devices College* (上海醫療器械工業專科學校) (currently known as Shanghai Health Medical College* (上海健康醫學院)) in July 1981, majoring in machinery. Mr. Yang graduated from Shanghai Administrative Management Leader College* (上海市行政管理幹部學院) (currently known as Shanghai Administrative College* (上海行政學院)) in July 1990, majoring in administrative management. He completed the master course in international economy and trade and investment environment from East China Normal University (華東師範大學) and graduated in July 1997.

Other major work experience of Mr. Yang includes:

<u>Employer</u>	<u>Employer's principal business</u>	<u>Term of office</u>	<u>Position</u>	<u>Responsibility</u>
Shanghai Big World Co., Ltd.* (上海大世界(集團)有限公司)	Entertainment	From May 1997 to April 2004	Chairman and general manager	Participating in significant decisions making and in charge of daily operations

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Employer	Employer's principal business	Term of office	Position	Responsibility
China United Travel Company Limited (國 旅聯合股份有限公司) (Shanghai A share listed; stock code: 600358)	Leasing and commercial services	From December 1998 to April 2005	Director	Participating in significant decisions making
Shanghai Youth Industry (Group) Co., Ltd.* (上海青年實業(集團)有 限公司)	Investment	From September 2001 to April 2004	Chairman	In charge of the work of the board of directors

Mr. Zhuang Jianhao (莊建浩), aged 55, joined our Company in January 2002 and served in various positions responsible for technology and management of our gas supply business sector. He was the assistant to chief executive officer from January 2002 to April 2008, a former Director from May 2002 to May 2003, a vice general manager from May 2002 to April 2008, and the chief technology officer from April 2008 to April 2014. Mr. Zhuang was re-appointed as a Director and vice general manager of our Company in April 2014. Mr. Zhuang has over 30 years of experience in gas supply industry. He was granted the title of senior engineer by Shanghai Title Reform Leading Group* (上海市職稱改革工作領導小組) in December 1995. Mr. Zhuang obtained a bachelor degree in coal chemical industry from East China Chemical Industry College* (華東化工學院) (currently known as East China University of Science and Technology* (華東理工大學)) in July 1983. He attended a joint master program in business administration from the University of Canberra in Australia and the East China University of Science and Technology* (華東理工大學) and received master degrees in July and August 2004, respectively.

Other major work experience of Mr. Zhuang includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Coalgas Company Yangshupu Factory* (上海市煤氣公 司楊樹浦煤氣廠)	Gas supply	From July 1983 to May 1994	Technician, engineer and vice chief (副科長) of technology department	Research and development of gas supply technology

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Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Yangshupu Coalgas Factory* (上海 楊樹浦煤氣廠)	Gas supply	From May 1994 to July 1995	Vice general engineer	Management of Technology
Shanghai Shidongkou Coalgas Factory* (上海 石洞口煤氣廠)	Gas supply	From July 1995 to August 1997	Vice director	Daily operations and management of technology
Shanghai Coalgas Sales (Group) Co., Ltd.* (上 海煤氣銷售(集團)有限 公司)	Gas supply	From August 1997 to September 2000	Vice general manager	Daily operations and management of technology
Shanghai Liquefied Petroleum Gas Operation Co., Ltd.* (上海液化石油氣經營有 限公司)	Gas supply	From September 2000 to December 2001	Chairman and party secretary	In charge of the work of the board of directors
Suchuang Gas Corporation Limited (Hong Kong listed; stock code: 01430)	Gas Supply	From 30 June 2016 to present	Non-executive director	Participating in decision making procedures, but not the day-to-day management

Non-executive Director

Mr. Li Songhua (李松華), aged 56, joined our Company in May 2011 and has been a Director of our Company since then. Mr. Li has over 20 years of experience in corporate governance. He was granted the title of master of political work (政工師) by Corporate Ideological and Political Work Qualification Review Committee* (企業思想政治工作人員專業職務評審委員會) in November 1995. Mr. Li graduated from Shanghai Huangpu District Amateur University* (上海黃浦區業餘大學) in July 1990. He obtained a master degree in business administration from Macau University of Science and Technology in October 2004.

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Other major work experience of Mr. Li includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Shenergy (Group) Company Limited* (申能(集團)有限公司)	Energy related infrastructure in Shanghai	From April 1995 to October 2000	Head of personnel department	Management of personnel related work
Shanghai Natural Gas Pipeline Network Co., Ltd.* (上海天然氣管網有限公司)	Investment, construction and management of Shanghai natural gas pipeline trunk network system	From October 2000 to December 2003	Manager of personnel department, office director and party secretary of management department	Management of personnel and office related work
Shanghai Gas Group (our Shareholder)	Investment, construction, operation and sales of Shanghai natural gas pipeline network and liquefied gas operation etc.	From December 2003 to present	Manager of human resources department from December 2003 to present; party committee member (黨委委員) from June 2011 to April 2012; vice party secretary (黨委副書記), secretary of discipline committee (紀委書記) and labor union president from April 2012 to present	Party affairs related work and human resources
Shanghai Rinnai Co., Ltd.* (上海林內有限公司)	Production of appliances	From December 2013 to present	Chairman	In charge of the work of the board of directors

Independent non-executive Directors

Mr. Cai Jianmin (蔡建民), aged 72, joined our Company in June 2010 and has been an independent non-executive Director of our Company since then. He is a member of the nomination committee and the remuneration and appraisal committee and the chairman of audit committee. Mr. Cai has over 28 years of experience in finance. He received the certificate of government special allowance* (政府特殊津貼證書) granted by the State Council of the People's Republic of China (中華人民共和國國務院) in June 2000. Mr. Cai won the second prize for outstanding teaching achievements* (上海市教學成果二等獎) awarded by the Shanghai

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Education Committee* (上海市人民政府教育委員會) in April 1998. He was also granted the title of senior accountant by Shanghai Expertise Qualification Review Committee, Accounting Series* (上海市會計系列高級專業技術職務任職資格評審委員會) in December 1998 and the title of vice professor in accounting by Shanghai Expertise Qualification Review Committee, College Professors* (上海市高等學校教師高級專業技術職務任職資格評審委員會) in June 1994. He was also accredited as a non-practicing member by Shanghai Institute of Certified Public Accountants* (上海市註冊會計師協會) in November 1994.

Other major work experience of Mr. Cai includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Hualian Group Co., Ltd.* (華聯(集團)有限公司)	Commercial distribution and capital operation	From July 1997 to May 2007	Chief financial officer	In charge of finance related issues
Shanghai Building Materials Group Corporation* (上海建材(集團)總公司)	Production and research of new materials	From October 2006 to May 2007	Sole duty director	In charge of finance related issues
Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司) (Shanghai A share and B share listed; A share stock code: 600822; B share stock code: 900927)	Trading, transportation and storage of means of production	From May 2007 to May 2010	Independent non-executive director	In charge of audit committee
Shanghai Jiaoda Only Co., Ltd. (上海交大昂立股份有限公司) (Shanghai A share listed; stock code: 600530)	Healthy food (保健食品)	From October 2007 to June 2015	Independent non-executive director	In charge of audit committee
Kama Co., Ltd. (恒天凱馬股份有限公司) (Shanghai B share listed; stock code: 900953)	Production of truck and other machinery equipment	From June 2008 to October 2014	Independent non-executive director	In charge of audit committee

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Employer	Employer's principal business	Term of office	Position	Responsibility
Hengdeli Holdings Limited (亨得利控股有限公司) (Hong Kong listed; stock code: 03389)	Retailer of watch brands and manufacturer of watch accessories	From July 2004 to present	Independent non-executive director	Provision of independent advice to the company
Shanghai Kaichuang Marine International Co., Ltd. (上海開創國際海洋資源股份有限公司) (Shanghai A share listed; stock code: 600097)	Fisheries	From December 2008 to present	Independent non-executive director	In charge of audit committee
Shanghai No. 1 Pharmacy Co., Ltd. (上海第一醫藥股份有限公司) (Shanghai A share listed; stock code: 600833)	Pharmaceutical retail	From June 2009 to August 2016	Independent non-executive director	In charge of audit committee

Mr. Chow Siu Lui (鄒小磊), aged 56, joined our Company and was appointed as an independent non-executive Director of our Company in April 2016. Mr. Chow has over 30 years of experience in accounting. Mr. Chow obtained his qualification as a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) in July 1991, the Hong Kong Institute of Certified Public Accountants (香港會計師公會) (“**HKICPA**”, formerly known as Hong Kong Society of Accountants) in December 1993, the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) (“**HKICS**”) in 2009, and the Institute of Chartered Secretaries and Administrators (英國特許秘書及行政人員公會) in 2009. Mr. Chow was appointed as the chairman of the mainland development strategies advisory panel and a member of the registration and practicing committee of the HKICPA for the year 2016 in February 2016. Mr. Chow was appointed as a council member and chairman of audit committee of the HKICS in December 2015. He obtained a professional diploma in accountancy from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1983.

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Other major work experience of Mr. Chow includes:

Employer	Employers principal business	Term of office	Position	Responsibility
KPMG	International auditing firm	From July 1983 to December 2011	Served various positions and became partner in July 1995	Involved in the form's IPO advisory activities and assisted clients in raising funds in both Hong Kong and overseas stock exchanges
VMS Investment Group Limited * (鼎佩投資集團有限公司)	Investment management firm	From April 2012 to present	Used to serve as managing director of private equity team and is currently a partner	Provide advice on fund raising and listing related due diligence
NWS Holdings Limited (新創建集團有限公司) (Hong Kong listed; stock code: 00659)	Infrastructure player and service provider	From March 2012 to June 2012	Independent non-executive director	Provision of independent advice to the company
Fullshare Holdings Limited (Hong Kong listed; stock code: 00607)	Sales of real properties, green building services and investment business	From December 2013 to present	Independent non-executive director	Provision of independent advice to the company
Kong Shum Union Property Management (Holding) Limited (Hong Kong listed; stock code: 8181)	Provision of property management services	From February 2015 to October 2015	Independent non-executive director	Provision of independent advice to the company
Universal Medical Financial & Technical Advisory Services Company Limited (Hong Kong listed; stock code: 2666)	Healthcare services provider	From June 2015 to present	Independent non-executive director	Provision of independent advice to the company

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Employer	Employers principal business	Term of office	Position	Responsibility
Sinco Pharmaceuticals Holdings Limited (Hong Kong listed; stock code: 6833)	Pharmaceutical service provider	From September 2015 to present	Independent non-executive director	Provision of independent advice to the company

Mr. Yan Xuehai (顏學海), aged 46, joined our Company in April 2014 and was appointed as an independent non-executive Director of our Company in April 2014. He is a member of the audit committee. Mr. Yan has over 14 years of experience in legal matters. He served as the member of the first session of the Standing Committee of Venture Capital Professional of the Chinese Technology Finance Development Association (中國科技金融促進會風險投資專業委員會委員) in February 2001. He was accredited as China's best financial lawyer of the year* (2008年度最佳私募股權金融律師) by 2008 Asia Pacific International Finance Forum* (2008年亞太國際金融論壇) in December 2008. He was honored as oriental lawyer of the second session* (第二屆“東方大律師”) by Shanghai Justice Bureau* (上海市司法局) and Shanghai Bar Association* (上海市律師協會) in March 2011. Mr. Yan received the certificate to practice as PRC lawyer accredited by Shanghai Changning District Bureau of Justice* (上海市長寧區司法局) in September 1998. He obtained a bachelor degree in forging technology and equipment from Northeast Heavy Machinery Institute* (東北重型機械學院) (currently known as Yanshan University* (燕山大學)) in July 1993 and another bachelor degree in international economic law from Fudan University* (復旦大學) in July 1997. Mr. Yan obtained a master degree in international law from the Renmin University of China* (中國人民大學) in April 2006.

Other major work experience of Mr. Yan includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Hiways Law Offices* (上海市海華永泰律師事務所)	Legal services	From February 2002 to present	Senior partner and director (主任)	Legal matters and business management
Tibet Urban Development and Investment Co., LTD (西藏城市發展投資股份有限公司) (Shanghai A share listed; stock code: 600773)	Real estate	From December 2009 to May 2015	Independent non-executive director	Participating in decision making procedure, but not the day-to-day management

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Employer	Employer's principal business	Term of office	Position	Responsibility
Shenergy Company Limited (申能股份有限公司) (Shanghai A share listed; stock code: 600642)	Power supply	From April 2012 to present	Independent non-executive director	Participating in decision making procedure, but not the day-to-day management
Shanghai Arbitration Commission* (上海仲裁委員會)	Arbitration related services	From December 2012 to present	Arbitrator	Arbitration matters
Shanghai Jiao Tong University* (上海交通大學)	Educational institution	From October 2013 to October 2016	Law school part-time professor	Education
Shanghai Tunnel Engineering Co., Ltd.* (上海隧道工程股份有限公司) (Shanghai listed; stock code: 600820)	Design and construction of tunnel related infrastructure	From October 2015 to present	Independent non-executive director	Provision of independent advice to the company

Mr. Yao Cho Fai Andrew (姚祖輝), aged 51, joined our Company in July 2015 and was appointed as an independent non-executive Director of our Company on July 28, 2015. Mr. Yao is the chairman of nomination committee and remuneration and appraisal committee, and member of audit committee. Mr. Yao has over 21 years of experience in steel and construction industry. He obtained a bachelor degree in business management from the University of California, Berkeley in May 1988 and a master degree in business administration from Harvard University in June 1992. He serves as the Hong Kong Deputy to the 12th National People's Congress (NPC) of PRC* (第十二屆港區全國人大代表), the chairman of Hong Kong-Shanghai Economic Development Association* (滬港經濟發展協會), the board member of Lingnan University (嶺南大學) in Hong Kong, the vice-chairman of Shanghai Federation of Industry & Commerce* (上海市工商業聯合會) and the board member of Fudan University* (復旦大學) in Shanghai. He was awarded Young Industrialist Award of Hong Kong* (香港青年工業家獎) by Federation of Hong Kong Industries in 2004. He was also awarded Justice of Peace* (太平紳士) by the Hong Kong government in 2008.

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Other major work experience of Mr. Yao includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Hong Kong Shanghai Alliance Holdings Limited (formerly known as Van Shung Chong Holdings Limited) (Hong Kong listed; stock code: 1001)	Trade of reinforcement steel	From January 1994 to present	Chairman, executive director and chairman of the nomination committee and member of the remuneration committee	In charge of the work of the board of directors
Grand Investment International Ltd. (Hong Kong listed; stock code: 1160)	Investment	From February 2004 to June 2009	Independent non-executive director	Provision of independent opinion to the company
Kader Holdings Company Limited (Hong Kong listed; stock code: 180)	Manufacture of plastic and toys	From September 2004 to present	Independent non-executive director	Provision of independent advice to the company
North Asia Strategic Holdings Limited (Hong Kong listed; stock code: 8080)	(during his term of non-executive director) Investment and sales of seafood	From June 2008 to September 2011	Non-executive director	Provision of advice to the company

Save as disclosed above, none of our Directors held any directorship in any public companies, the securities of which are listed in Hong Kong, the PRC or overseas stock markets, during the three years prior to the date of this prospectus.

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Supervisors

Ms. Cao Yongqin (曹永勤), aged 59, joined our Company in April 1999 and has been the chairman of the Supervisory Committee since then. Ms. Cao has over 14 years of experience in accounting. She was granted the title of vice professor by Expertise Qualification Review Committee, Shanghai Jiaotong University* (上海交通大學高級專業技術職務任職資格評審委員會) in December 1993 and was accredited as a non-practising member by Shanghai Institute of Certified Public Accountants* (上海市註冊會計師協會) in December 2010. Ms. Cao graduated from Nanjing University (南京大學) in July 1981, majoring in economic management and obtained a master degree in business administration from Oklahoma City University in the United States in December 1986.

Other major work experience of Ms. Cao includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Dazhong Taxi Co., Ltd.* (上海大眾出租汽車股份有限公司)	Taxi services	From February 1997 to December 1997	Supervisor and vice general manager of finance department	Financial analysis
Shanghai Jiada Only Co., Ltd. (上海交大昂立股份有限公司) (Shanghai A share listed; stock code: 600530)	Healthy food (保健食品)	From January 1998 to November 2001	General accountant	Overall financial management
Dazhong Transportation Group (Shanghai A share listed; stock code: 600611)	Taxi service	From December 2001 to July 2005	General economist and supervisor	Finance and treasury management
Shanghai Sanda University (上海杉達學院)	Educational institution	From April 2006 to April 2010	Chief accountant	Overall financial management and provision of lecture
Shanghai Xujiahui Commercial Co., Ltd. (上海徐家匯商城股份有限公司) (Shenzhen listed; stock code: 002561)	Retail	From April 2014 to present	Independent non-executive director	Chairman of audit committee

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Ms. Zhao Siyuan (趙思淵), aged 45, joined our Company in April 2014 and was appointed as Supervisor of our Company in April 2014. She has over 20 years of experience in corporate management. Ms. Zhao is accredited as excellent secretary to the board* (優秀董事會秘書) by The Listed Companies Association of Shanghai* (上海上市公司協會) in May 2015. Ms. Zhao obtained a bachelor degree in law from Shanghai University* (上海大學) in July 1993.

Other major work experience of Ms. Zhao includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Dazhong Transportation Group (Shanghai A share listed; stock code: 600611)	Modern logistics and transportation	From July 1993 to present	Manager of legal department from July 1993 to August 2008, secretary to the board since August 2008; director and vice general manager since May 2015	In charge of investment and automobile services sectors
Shanghai Dazhong Business Management (our shareholder)	Investment holding	From June 2013 to present	Chairman	In charge of the work of the board of directors

Mr. Yang Weibiao (楊衛標), aged 47, joined our Company in March 2004. He served in various positions and was appointed as the assistant to chief executive officer of our Company in May 2014. He was further appointed as employee representative Supervisor on July 10, 2015. Mr. Yang has 23 years of experience in corporate management. Mr. Yang obtained a bachelor degree in politics and administration from Fudan University* (復旦大學) in July 1992 and a master degree in economics from Fudan University* (復旦大學) in July 1999.

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Other major work experience of Mr. Yang includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Shanghai Waigaoqiao Free Trade Zone Development Holding Company* (上海外高橋保稅區開發控股公司)	Comprehensive development and operation	From January 1994 to October 2000	Assistant general manager	Daily operations
Dazhong Transportation Group (Shanghai A share listed; stock code: 600611)	Modern logistics and transportation	From November 2000 to February 2004	Assistant manager of investment and development department	Strategy management

Save as disclosed above, none of our Supervisors held any directorship in any public companies, the securities of which are listed in Hong Kong, the PRC or overseas stock markets, during the three years prior to the date of this prospectus.

Senior Management

Four of our executive Directors, namely Mr. Liang Jiawei (梁嘉瑋), Mr. Zhong Jinxing (鐘晉倬), Mr. Yang Jicai (楊繼才) and Mr. Zhuang Jianhao (莊建浩), concurrently hold senior management positions in our Group. For each of their biographies, please refer to “— Overview — Directors — Executive Directors” in this section above.

Ms. Zhao Fei (趙飛), aged 38, joined our company in February 2004 and was appointed as secretary to the Board in June 2015. Ms. Zhao has over 15 years of experience in law. She has been a legal staff of our Company and has been the manager of our legal department since March 2014. She was further promoted as secretary to the Board on June 18, 2015. Ms. Zhao passed the PRC judicial exam and received the qualification of legal profession (法律職業資格證) by Ministry of Justice of the People's Republic of China (中華人民共和國司法部) in February 2007. Ms. Zhao obtained a bachelor degree in law from Shanghai University of Finance and Economics (上海財經大學) in July 2000 and a master degree in law from Fudan University (復旦大學) in January 2011.

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Other major work experience of Ms. Zhao includes:

Employer	Employer's principal business	Term of office	Position	Responsibility
Dazhong Transportation Group (Shanghai A share listed; stock code: 600611)	Modern logistics and transportation	From July 2000 to December 2003	In-house legal assistant	Assist in handling legal issues of the company

Save as disclosed above, none of our senior management held any directorship in any public companies, the securities of which are listed in Hong Kong, the PRC or overseas stock markets, during the three years prior to the date of this prospectus.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors and Supervisors having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors and Supervisors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors and Supervisors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

Joint Company Secretaries

Ms. Zhao Fei (趙飛), one of the joint company secretaries, is also our secretary to the Board. Please refer to “— Overview — Senior Management” of this section for her profile.

Mr. WONG Yat Tung (黃日東), aged 43, is a manager of SW Corporate Services Group Limited. He has more than eight years of extensive experience in providing company secretarial services to private and listed companies. He currently serves as the company secretary of three companies and the joint company secretary of three companies, all listed on the Hong Kong Stock Exchange. He holds a degree in Quantitative Analysis for Business from City University of Hong Kong and master of Corporate Governance from the Hong Kong Polytechnic University. Mr. Wong is an Associate of The Hong Kong Institute of Chartered Secretaries and an Associate of The Institute of Chartered Secretaries and Administrators.

BOARD COMMITTEES

The Board delegates certain responsibilities to various dedicated committees. In accordance with relevant the PRC laws, regulations, the Articles and the Hong Kong Listing Rules, we have formed three board committees, including the audit committee, the remuneration and appraisal committee and the nomination committee.

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Audit Committee

Our audit committee consists of three Directors, namely Mr. Cai Jianmin (蔡建民), Mr. Yao Cho Fai Andrew (姚祖輝) and Mr. Yan Xuehai (顏學海). The chairman of our audit committee is Mr. Cai Jianmin (蔡建民), our independent non-executive Director. Our audit committee is responsible for, among other things:

- ensuring the implementation of effective financial control, internal control and risk management systems of our Company in compliance with the Hong Kong Listing Rules;
- supervising the drafting and implementation of the internal audit system of our Company, coordinating between the internal and external audit;
- overseeing the completeness of financial statement and annual reports and accounts, interim reports and quarterly reports of our Company;
- approving the connected transactions or the filing of the connected transactions within authorization from the Board;
- reviewing the financial and internal monitoring system as well as the risk management system;
- reviewing the financial and accounting policies and practices of our Company;
- maintaining the communication between the internal audit department and the external audit firm; and
- other duties authorized by the Board.

Remuneration and Appraisal Committee

The remuneration and appraisal committee of our Company consists of three Directors, namely Mr. Yao Cho Fai Andrew (姚祖輝), Mr. Yang Guoping (楊國平) and Mr. Cai Jianmin (蔡建民). The chairman of the remuneration and appraisal committee is Mr. Yao Cho Fai Andrew (姚祖輝), our independent non-executive Director. The remuneration and appraisal committee is responsible for, among other things:

- determining the assessment standards for the Directors, managers and other senior management and advising on the establishment of the proper and transparent procedures to formulate the remuneration policy;
- reviewing and examining the remuneration policies and plans of the Directors, managers and other senior management;

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- overseeing the implementation of remuneration system of our Company;
- taking into account of the salaries paid by comparable companies, time commitment and responsibilities, employment conditions of other positions in our Group;
- reviewing and approving the compensation arrangement in connection with the termination of appointment of Directors and senior management; and
- other duties authorized by the Board.

Nomination Committee

The nomination committee of our Company consists of three Directors, namely Mr. Yao Cho Fai Andrew (姚祖輝), Mr. Yang Guoping (楊國平) and Mr. Cai Jianmin (蔡建民). The chairman of the nomination committee is Mr. Yao Cho Fai Andrew (姚祖輝), our independent non-executive Director. The Nomination Committee is responsible for, among other things:

- determining the selection standard and procedures to appoint Directors, managers and other senior management;
- identifying suitable candidates of Directors, managers and other senior management and making recommendation to our Board;
- evaluating the independence of the independent Directors;
- evaluating the composition, number of Directors and formation of our Board;
- assessing the candidates of Directors, managers and other senior management and making recommendation; and
- other duties authorized by the Board.

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COMPENSATION OF DIRECTORS AND SUPERVISORS

The Directors and Supervisors receive compensation in the form of fees, salaries, allowances and benefits-in-kind and retirement benefit plans contributions.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total compensation paid to our Directors amounted to RMB10,889,000, RMB8,239,000, RMB12,089,000 and RMB12,365,000, respectively, and the details are set out below:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fees	240	240	160	200
Salaries, allowances and benefits-in-kind	10,036	7,275	11,021	11,598
Retirement benefit plans contributions	613	724	908	567
Total	10,889	8,239	12,089	12,365

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total compensation paid to our Supervisors amounted to RMB1,829,000, RMB1,784,000, RMB1,432,000 and RMB747,000, respectively, and the details are set out below:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fees	–	–	–	100
Salaries, allowances and benefits-in-kind	1,673	1,597	1,254	585
Retirement benefit plans contributions	156	187	178	62
Total	1,829	1,784	1,432	747

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Among the five highest paid individuals of the Group, three of them are our Directors for the years ended 31 December 2013 and 2014 and five of them are directors for the year ended December 31, 2015 and the six months ended June 30, 2016. The emoluments paid to the remaining two individuals, who are neither a director nor a supervisor of the Company, for each of the years ended December 31, 2013 and 2014 are as follows:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	3,246	3,115	–	–
Contributions to retirement benefits schemes	277	331	–	–
Total	3,523	3,446	–	–

Under the arrangement currently in force, we estimate the total compensation payable to our Directors (including independent non-executive Directors) and Supervisors for the year ending December 31, 2016 will amount to approximately RMB12 million and RMB1.5 million, respectively.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, no emoluments were paid to any of our Directors, Supervisors or any of the five highest paid individuals as an inducement to join us or as compensation for loss of office. Moreover, none of our Directors waived their emoluments during the relevant period.

The remuneration of our Directors and Supervisors is determined with reference to the performance of our Company and is based on annual audited financial statement. The remuneration of some of our Directors, who are the directors or general managers of our subsidiaries, is also determined with reference to the annual performance appraisal target (task) book (年度績效考核目標(任務)書) signed between those Directors and our Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

Our Company has agreed to appoint Haitong International Capital Limited as our compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The material terms of the compliance adviser's agreement are as follows:

- (1) Haitong International Capital Limited shall act as the compliance adviser of our Company for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Hong Kong Listing Rules in respect of the financial results of our Company for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (2) the compliance adviser will provide us with certain services, including guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines, and advice on the continuing requirements under the Hong Kong Listing Rules and applicable laws and regulations;
- (3) the compliance adviser will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and
- (4) the compliance adviser will act as one of our key channels of communication with the Hong Kong Stock Exchange.

SHARE CAPITAL

SHARE CAPITAL

Before the Global Offering

As at the Latest Practicable Date, the registered capital of our Company was RMB2,467,304,675, comprising 2,467,304,675 A Shares of nominal value RMB1.00 each, which are all listed on the Shanghai Stock Exchange.

	Number of Shares	% of issued share capital
A Shares	2,467,304,675	100

Upon Completion of the Global Offering

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the entire share capital of our Company would be as follows:

Description of Shares	Number of Shares	Approximate % of then enlarged issued share capital
A Shares	2,423,764,675	83.50
H Shares converted from A Shares and offered by the Selling Shareholders pursuant to the Global Offering	43,540,000	1.50
H Shares issued pursuant to the Global Offering	435,400,000	15.00
Total	2,902,704,675	100.00

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is fully exercised, the entire share capital of our Company would be as follows:

Description of Shares	Number of Shares	Approximate % of then enlarged issued share capital
A Shares	2,417,233,675	81.44
H Shares converted from A Shares and offered by the Selling Shareholders pursuant to the Global Offering	50,071,000	1.69
H Shares issued pursuant to the Global Offering	500,710,000	16.87
Total	2,968,014,675	100.00

SHARE CAPITAL

SHARE CLASSES

The H Shares and A Shares in issue upon completion of the Global Offering will be Shares in our share capital. However, apart from QDIIs, H Shares generally cannot be subscribed for by, or traded between, legal or natural persons of the PRC. A Shares, on the other hand, can only be subscribed for by, and traded between, legal or natural persons of the PRC, QFIIs or qualified foreign strategic investors and must be traded in Renminbi. Upon the launch of the pilot program of Shanghai-Hong Kong Stock Interconnection (“**Shanghai-Hong Kong Stock Connect**” or “**Pilot Program**”) for establishing mutual stock access between Mainland China and Hong Kong on November 17, 2014, the A Shares of our Company are eligible securities approved to be traded between Hong Kong and overseas investors in a limited amount and pursuant to the rules and regulations as prescribed under the Pilot Program. A Shares can also be subscribed for by, and traded between, legal or natural persons of the PRC, QFIIs or qualified foreign strategic investors and must be traded in Renminbi. The H Shares of our Company will be eligible securities approved to be traded between, legal or natural persons of the PRC in a limited amount and pursuant to the rules and regulations as prescribed under the Pilot Program. H Shares can also be subscribed for by, or traded by QDIIs. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars whereas all dividends in respect of A Shares are to be paid by us in Renminbi. Our A Shares have been listed on the Shanghai Stock Exchange since March 4, 1993.

In addition, A Shares and H Shares are regarded as different classes of Shares under our Articles of Association. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different branches of the register of Shareholders, the method of Share transfer and appointment of dividend receiving agents are set out in our Articles of Association and summarized in “Appendix V — Summary of The Articles of Association”. Further, any change or abrogation of the rights of class Shareholders should be approved by way of a special resolution of the general meeting of Shareholders and by a separate meeting of Shareholders convened by the affected class of Shareholders. Further details with respect to the circumstances under which general meeting and class meeting are required are set out in the section headed “Appendix V — Summary of The Articles of Association”. However, the procedures for approval by separate class Shareholders shall not apply:

- (i) where the Company issues domestic shares and overseas-listed foreign-invested shares, upon the approval by a special resolution of the general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued domestic shares and overseas-listed foreign-invested shares;
- (ii) where the plan of the Company to issue domestic shares and overseas-listed foreign-invested shares at the time of its establishment is carried out within 15 months from the date of approval of the securities regulatory authority under the State Council; or

SHARE CAPITAL

- (iii) where the transfer of the domestic shares held by the holders of domestic shares of the Company to foreign investors and the listing on overseas stock exchange are approved by the securities regulatory institution under the State Council.

A Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made.

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different after the Global Offering.

REDUCTION OF STATE-OWNED SHARES

In accordance with relevant PRC regulations regarding the reduction of state-owned shares, the Selling Shareholders are required to transfer to NSSF such number of A Shares as in aggregate would be equivalent to 10% of the number of the new Shares to be issued by the Company under the Global Offering (being 435,400,000 H Shares before the exercise of the Over-allotment Option and 500,710,000 H Shares after the exercise in full of the Over-allotment Option), or pay the equivalent cash at the Offer Price under the Global Offering to NSSF, or a combination of both. Pursuant to a letter issued by NSSF (*She Bao Ji Jin Fa* [2016] No. 68) on May 13, 2016, NSSF instructed us to (i) arrange for the sale of the Sale Shares as part of the Global Offering, and (ii) remit the proceeds from the sale of the Sale Shares to an account designated by NSSF.

The reduction of state-owned shares by the Selling Shareholders was approved by SASAC on September 18, 2015. The conversion of those shares into H Shares and the offering for sale of the Sale Shares were approved by CSRC on December 30, 2015. We have been advised by our PRC legal advisers, Jin Mao P.R.C. Lawyers, that the transfer and the conversion, and the offering for sale of the Sale Shares, have been approved by the relevant PRC authorities and are legal under the PRC laws and regulations.

TRANSFER OF A SHARES TO OVERSEAS INVESTORS FOR LISTING AND TRADING ON THE HONG KONG STOCK EXCHANGE AS H SHARES

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different after the Global Offering.

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders as of the Latest Practicable Date

As of the Latest Practicable Date, our issued share capital was RMB2,467,304,675, comprising 2,467,304,675 A Shares. The following persons directly or indirectly control, or are entitled to the exercise of, 5% or more of our A Shares:

Shareholders	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate % of Interest in Our Company
Shanghai Dazhong Business Management ⁽¹⁾	Beneficial owner	A Shares	495,143,859	20.07
Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) ⁽²⁾	Interest of controlled corporation	A Shares	495,143,859	20.07
Shanghai Gas Group	Beneficial owner	A Shares	201,062,058	8.15
Shenergy (Group) Company Limited* (申能(集團)有限公司) ⁽³⁾	Interest of controlled corporation	A Shares	201,062,058	8.15

Notes:

- (1) As of the Latest Practicable Date, Shanghai Dazhong Business Management had pledged a total of 428,500,000 A shares held by it as security to its loans borrowed from certain commercial banks.
- (2) Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) is composed of (a) the employees of Shanghai Dazhong Business Management; (b) the employees of our Group; and (c) the employees of Dazhong Transportation Group. It is the beneficial owner of 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in the entire A Shares interests held by Shanghai Dazhong Business Management.
- (3) Shenergy (Group) Company Limited* (申能(集團)有限公司) is the beneficial owner of the entire equity interests in Shanghai Gas Group and is deemed to be interested in the A Shares held by Shanghai Gas Group.

SUBSTANTIAL SHAREHOLDERS

In addition to the above and so far as our Directors are aware, as of the Latest Practicable Date, save for our subsidiaries, the following entities were directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

Name of Subsidiaries	Substantial Shareholder of such subsidiary	Approximate Percentage of Shareholding
Shanghai Dazhong Gas	Shanghai Gas Group	50%
Minhang Dazhong Micro-credit	Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司)	20%
Minhang Dazhong Micro-credit	Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司)	10%
Minhang Dazhong Micro-credit	Shanghai Dongfulong Technology Co., Ltd.* (上海東富龍科技股份有限公司)	10%
Minhang Dazhong Micro-credit	Shanghai Gumei Asset Operation and Management Co., Ltd.* (上海古美資產經營管理有限公司)	10%
Shanghai Dazhong Financial Leasing	Dazhong Transportation Group	20%
Shanghai Dazhong Financial Leasing	Shanghai Dazhong Business Management	10%
Nantong Dazhong Gas	Nantong Gas General* (南通市燃氣總公司)	50%
Hangzhou Qiantang Sewage	Hangzhou Xiaoshan Sewage Co., Ltd.* (杭州蕭山污水處理有限公司)	10%
Jiangsu Dazhong Water	Wang Lu (王璐)	15%
Allpay International Finance Service	99 Wuxian Limited (99無限有限公司)	40%
Nantong Gas Equipment	Yang Jun (楊軍)	20%
Rudong Dazhong Gas	Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司)	30%

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders upon Listing

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, our share capital will comprise 2,423,764,675 A Shares and 478,940,000 H Shares (including H Shares converted from A Shares and offered by the Selling Shareholders pursuant to the Global Offering), representing approximately 83.50% and 16.50% of the total share capital of our Company, respectively. So far as our Directors are aware, immediately following the completion of the Global Offering (and assuming the Over-allotment Option is not exercised), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will directly or indirectly, be interested in 10% or more of the value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Shareholders	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate % of Interest in Our Company	Approximate % of the Relevant Class of Our Company
Shanghai Dazhong Business Management ⁽¹⁾	Beneficial owner	A Shares	495,143,859	17.06	20.43
Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) ⁽²⁾	Interest of controlled corporation	A Shares	495,143,859	17.06	20.43
Shanghai Gas Group	Beneficial owner	A Shares	158,674,147	5.47	6.55
Shenergy (Group) Company Limited* (申能(集團)有限公司) ⁽³⁾	Interest of controlled corporation	A Shares	158,674,147	5.47	6.55
Investstar Limited ⁽⁴⁾	Beneficial owner	H Shares	51,025,000	1.76	10.65
New China Asset Management (Hong Kong) Limited ⁽⁵⁾	Beneficial owner	H Shares	51,025,000	1.76	10.65
Fung Yu Holdings Limited ⁽⁶⁾	Beneficial owner	H Shares	40,820,000	1.41	8.52
ENN Energy China Investment Limited ⁽⁷⁾	Beneficial owner	H Shares	122,461,000	4.22	25.57

Notes:

- (1) As of the Latest Practicable Date, Shanghai Dazhong Business Management had pledged a total of 428,500,000 A shares held by it as security to its loans borrowed from certain commercial banks.
- (2) Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) is composed of (a) the employees of Shanghai Dazhong Business Management; (b) the employees of our Group; and (c) the employees of Dazhong Transportation Group. It is the beneficial owner of 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in the entire A Shares interests held by Shanghai Dazhong Business Management.

SUBSTANTIAL SHAREHOLDERS

- (3) Shenergy (Group) Company Limited* (申能(集團)有限公司) is the beneficial owner of the entire equity interests in Shanghai Gas Group and is deemed to be interested in the A Shares held by Shanghai Gas Group.
- (4) Investstar Limited is a wholly-owned subsidiary of Towngas Investment Company Limited (煤氣投資有限公司), which is wholly owned by The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) (stock code: 0003.HK). Therefore, each of Towngas Investment Company Limited (煤氣投資有限公司) and The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) is deemed to be interested in the H Shares held by Investstar Limited under the SFO. The number of H Shares and percentage of shareholding of Investstar Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (5) New China Asset Management (Hong Kong) Limited is owned as to 60.0% by New China Asset Management Company Limited, which is owned as to 99.4% by New China Life Insurance Company Limited (stock code: 1336.HK). Therefore, each of New China Asset Management Company Limited and New China Life Insurance Company Limited is deemed to be interested in the H Shares held by New China Asset Management (Hong Kong) Limited under the SFO. The number of H Shares and percentage of shareholding of New China Asset Management (Hong Kong) Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (6) Fung Yu Holdings Limited is wholly owned by Mr. Su Aping (蘇阿平). Therefore, Mr. Su Aping (蘇阿平) is deemed to be interested in the H Shares held by Fung Yu Holdings Limited under the SFO. The number of H Shares and percentage of shareholding of Fung Yu Holdings Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (7) ENN Energy China Investment Limited is wholly owned by ENN Energy Holdings Limited (Stock Code: 02688.HK). Mr. Wang Yusuo is the controlling shareholder of ENN Energy Holdings Limited. Therefore, each of ENN Energy Holdings Limited and Mr. Wang Yusuo is deemed to be interested in the H Shares held by ENN Energy China Investment Limited under the SFO. The number of H Shares and percentage of shareholding of ENN Energy China Investment Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).

In addition to the above and so far as our Directors are aware, immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, save for our subsidiaries, the following entities are directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

<u>Name of Subsidiaries</u>	<u>Substantial Shareholder of such subsidiary</u>	<u>Approximate Percentage of Shareholding</u>
Shanghai Dazhong Gas	Shanghai Gas Group	50%
Minhang Dazhong Micro-credit	Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司)	20%
Minhang Dazhong Micro-credit	Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司)	10%
Minhang Dazhong Micro-credit	Shanghai Dongfulong Technology Co., Ltd.* (上海東富龍科技股份有限公司)	10%
Minhang Dazhong Micro-credit	Shanghai Gumei Asset Operation and Management Co., Ltd.* (上海古美資產經營管理有限公司)	10%

SUBSTANTIAL SHAREHOLDERS

Name of Subsidiaries	Substantial Shareholder of such subsidiary	Approximate Percentage of Shareholding
Shanghai Dazhong Financial Leasing	Dazhong Transportation Group	20%
Shanghai Dazhong Financial Leasing	Shanghai Dazhong Business Management	10%
Nantong Dazhong Gas	Nantong Gas General* (南通市燃氣總公司)	50%
Hangzhou Qiantang Sewage	Hangzhou Xiaoshan Sewage Co., Ltd.* (杭州蕭山污水處理有限公司)	10%
Jiangsu Dazhong Water	Wang Lu (王璐)	15%
Allpay International Finance Service	99 Wuxian Limited (99無限有限公司)	40%
Nantong Gas Equipment	Yang Jun (楊軍)	20%
Rudong Dazhong Gas	Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司)	30%

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is fully exercised, our share capital will comprise 2,417,233,675 A Shares and 550,781,000 H Shares (including H Shares converted from A Shares and offered by the Selling Shareholders pursuant to the Global Offering), representing approximately 81.44% and 18.56% of the total share capital of our Company, respectively. So far as our Directors are aware, immediately following the completion of the Global Offering (and assuming the Over-allotment Option is exercised in full), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will directly or indirectly, be interested in 10% or more of the value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Shareholders	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate % of Interest in Our Company (%)	Approximate % of the Relevant Class of Our Company
Shanghai Dazhong Business Management ⁽¹⁾	Beneficial owner	A Shares	495,143,859	16.68	20.48
Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) ⁽²⁾	Interest of controlled corporation	A Shares	495,143,859	16.68	20.48
Shanghai Gas Group	Beneficial owner	A Shares	152,315,961	5.13	6.30

SUBSTANTIAL SHAREHOLDERS

Shareholders	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate % of Interest in Our Company (%)	Approximate % of the Relevant Class of Our Company
Shenergy (Group) Company Limited* (申能(集團)有限公司) ⁽³⁾	Interest of controlled corporation	A Shares	152,315,961	5.13	6.30
Investstar Limited ⁽⁴⁾	Beneficial owner	H Shares	51,025,000	1.72	9.26
New China Asset Management (Hong Kong) Limited ⁽⁵⁾	Beneficial owner	H Shares	51,025,000	1.72	9.26
Fung Yu Holdings Limited ⁽⁶⁾	Beneficial owner	H Shares	40,820,000	1.38	7.41
ENN Energy China Investment Limited ⁽⁷⁾	Beneficial owner	H Shares	122,461,000	4.13	22.23

Notes:

- (1) As of the Latest Practicable Date, Shanghai Dazhong Business Management had pledged a total of 428,500,000 A shares held by it as security to its loans borrowed from certain commercial banks.
- (2) Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) is composed of (a) the employees of Shanghai Dazhong Business Management; (b) the employees of our Group; and (c) the employees of Dazhong Transportation Group. It is the beneficial owner of 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in the entire A Shares interests held by Shanghai Dazhong Business Management.
- (3) Shenergy (Group) Company Limited* (申能(集團)有限公司) is the beneficial owner of the entire equity interests in Shanghai Gas Group and is deemed to be interested in the A Shares held by Shanghai Gas Group.
- (4) Investstar Limited is a wholly-owned subsidiary of Towngas Investment Company Limited (煤氣投資有限公司), which is wholly owned by The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) (stock code: 0003.HK). Therefore, each of Towngas Investment Company Limited (煤氣投資有限公司) and The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) is deemed to be interested in the H Shares held by Investstar Limited under the SFO. The number of H Shares and percentage of shareholding of Investstar Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (5) New China Asset Management (Hong Kong) Limited is owned as to 60.0% by New China Asset Management Company Limited, which is owned as to 99.4% by New China Life Insurance Company Limited (stock code: 1336.HK). Therefore, each of New China Asset Management Company Limited and New China Life Insurance Company Limited is deemed to be interested in the H Shares held by New China Asset Management (Hong Kong) Limited under the SFO. The number of H Shares and percentage of shareholding of New China Asset Management (Hong Kong) Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (6) Fung Yu Holdings Limited is wholly owned by Mr. Su Aping (蘇阿平). Therefore, Mr. Su Aping (蘇阿平) is deemed to be interested in the H Shares held by Fung Yu Holdings Limited under the SFO. The number of H Shares and percentage of shareholding of Fung Yu Holdings Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (7) ENN Energy China Investment Limited is wholly owned by ENN Energy Holdings Limited (Stock Code: 02688.HK). Mr. Wang Yusuo is the controlling shareholder of ENN Energy Holdings Limited. Therefore, each of ENN Energy Holdings Limited and Mr. Wang Yusuo is deemed to be interested in the H Shares held by ENN Energy China Investment Limited under the SFO. The number of H Shares and percentage of shareholding of ENN Energy China Investment Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).

SUBSTANTIAL SHAREHOLDERS

In addition to the above and so far as our Directors are aware, immediately following completion of the Global Offering and assuming the Over-allotment Option is fully exercised, save for our subsidiaries, the following entities are directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

<u>Name of Subsidiaries</u>	<u>Substantial Shareholder of such subsidiary</u>	<u>Approximate Percentage of Shareholding</u>
Shanghai Dazhong Gas	Shanghai Gas Group	50%
Minhang Dazhong Micro-credit	Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司)	20%
Minhang Dazhong Micro-credit	Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司)	10%
Minhang Dazhong Micro-credit	Shanghai Dongfulong Technology Co., Ltd.* (上海東富龍科技股份有限公司)	10%
Minhang Dazhong Micro-credit	Shanghai Gumei Asset Operation and Management Co., Ltd.* (上海古美資產經營管理有限公司)	10%
Shanghai Dazhong Financial Leasing	Dazhong Transportation Group	20%
Shanghai Dazhong Financial Leasing	Shanghai Dazhong Business Management	10%
Nantong Dazhong Gas	Nantong Gas General* (南通市燃氣總公司)	50%
Hangzhou Qiantang Sewage	Hangzhou Xiaoshan Sewage Co., Ltd.* (杭州蕭山污水處理有限公司)	10%
Jiading Dazhong Water	Wang Lu (王璐)	15%
Allpay International Finance Service	99 Wuxian Limited (99無限有限公司)	40%
Nantong Gas Equipment	Yang Jun (楊軍)	20%
Rudong Dazhong Gas	Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司)	30%

SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this prospectus, as of the Latest Practicable Date, we are not aware of any arrangement which may on a subsequent date result in a change of control of our Company.

For details of the substantial shareholders who, immediately following the completion of the Global Offering will have interests or short positions in our Shares which are required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the value of any class of Shares carrying rights to vote in all circumstances at general meetings of any member of our Group, please refer to the section headed “Appendix VI — Statutory and General Information — C. Further Information about Our Directors, Supervisors and Substantial Shareholders — 1. Disclosure of Interests”.

Relationship with Shanghai Dazhong Business Management

As of the Latest Practicable Date, Shanghai Dazhong Business Management, our largest shareholder, held 495,143,859 Shares, representing approximately 20.07% of our total issued share capital. Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, Shanghai Dazhong Business Management is expected to continue to be the largest Shareholder and to hold 495,143,859 Shares, representing approximately 17.06% of our total issued share capital.

Non-competition Agreement

To ensure that Shanghai Dazhong Business Management does not compete with our Company, we entered into a non-competition agreement with Shanghai Dazhong Business Management on November 2, 2016 (the “**Non-Competition Agreement**”) which will be effective upon Listing, pursuant to which Shanghai Dazhong Business Management agreed to make the following non-competition undertakings:

- Shanghai Dazhong Business Management will not, and will procure its close associates not to directly or indirectly engage in or participate in or assist to engage in or participate in any business or activity that competes or may compete with any existing and future core businesses of our Company and its subsidiaries in any manner (including but not limited to investment, merger and acquisition, associated companies, joint ventures, contracting, leasing operation, purchase of stocks of or investment in listed companies), whether solely or jointly with other parties in the PRC or Hong Kong;
- Shanghai Dazhong Business Management will not, and will procure its close associates not to support any other parties (other than the Company and its subsidiaries) to engage in any business or activity that competes or may compete with any existing and future core businesses of our Company or its subsidiaries in any manner in the PRC or Hong Kong;

SUBSTANTIAL SHAREHOLDERS

- Shanghai Dazhong Business Management will not, and will procure its close associates not to (directly or indirectly) involve in any business or activity that competes or may compete with any existing and future core businesses of our Company or its subsidiaries in any other manner;
- Shanghai Dazhong Business Management shall immediately notify our Company in writing once any new business opportunity (including similar business opportunity) that constitutes or may constitute direct or indirect competition with any core businesses of our Company is identified, and shall use its best endeavor to offer the pre-emptive right of such business opportunity to our Company or its subsidiaries on reasonable and fair terms and conditions. Shanghai Dazhong Business Management or its relevant subsidiaries shall, under the same conditions, transfer the pre-emptive right of such new business opportunity to our Company or its relevant subsidiaries. In addition, Shanghai Dazhong Business Management undertakes to use its best endeavor to procure its close associates to comply with such undertaking;
- If Shanghai Dazhong Business Management intends to transfer, sell, lease, license or otherwise transfer or permit to use any of its existing businesses which directly or indirectly competes with any core businesses of our Company or any other future new business which directly or indirectly competes or may compete with any core businesses of our Company to a third party, Shanghai Dazhong Business Management shall notify our Company in writing in advance and our Company has the right to decide whether to acquire the aforesaid competitive business or interests. Before our Company makes the decision, Shanghai Dazhong Business Management shall not make any notifications to the third party in relation to its intention to transfer, sell, lease, or permit to use its competitive business or interests. In addition, Shanghai Dazhong Business Management undertakes to use its best endeavor to procure its close associates to comply with such undertaking; and
- Shanghai Dazhong Business Management will actively improve, reorganize and properly operate its existing businesses and new competitive businesses which may be acquired in the future, with an aim to ultimately transfer its competitive businesses to our Company by granting preference and option and/or pre-emptive right and/or right of first refusal to our Company.

The above non-competition undertakings end on the date of which either: (i) Shanghai Dazhong Business Management and its subsidiaries hold less than 10% of the shares of our Company; or (ii) the Shares cease to be listed on Shanghai Stock Exchange or the Hong Kong Stock Exchange, whichever is earlier.

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The following discussion should be read in conjunction with our consolidated financial information, together with the accompanying notes, as set forth in the Accountant's Report in Appendix IA to this prospectus. Our consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which may differ in material aspects from generally accepted principles in other jurisdictions, including the United States.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the relevant circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. Factors that could cause or contribute to such differences include those disclosed in "Risk Factors" and "Forward-looking Statements".

OVERVIEW

We are a leading public utility service provider in Shanghai that complements our operations with strategic and financial investments in our associated companies in public utility and other industries, from which we generated a significant portion of our profit during the Track Record Period. The public utility services we provide include piped gas supply, wastewater treatment and public infrastructure projects. We generated revenue from public utility service operations in the amount of RMB3,929.8 million, RMB4,190.3 million, RMB4,566.1 million and RMB2,501.8 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. We were the largest piped gas supplier in Shanghai Urban Area in terms of length of pipeline under operation in 2015, according to the CIC Report. Our main business operations of public utility services are complemented by our long-term investments, including our strategic investment in public transportation industries through Dazhong Transportation Group and a portfolio of financial investments. We implemented a business strategy which focuses capital expenditure on growth in our core public utility service operations while endeavor to increase the value of our Company through strategic and financial investments. We recorded a majority of our profits in the form of share of results from our investments in Dazhong Transportation Group and Shenzhen Capital Group during the Track Record Period.

We had experienced steady growth during the Track Record Period. We generated revenue of RMB3,929.8 million, RMB4,212.6 million, RMB4,616.6 million and RMB2,544.0 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively representing a CAGR of 8.4% from 2013 to 2015. Our profit after tax was RMB313.4 million, RMB374.3 million, RMB535.7 million and RMB358.8 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing a CAGR of 30.7% from 2013 to 2015.

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PRINCIPAL FACTORS AFFECTING OUR FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

During the Track Record Period, our financial position and results of operations were affected by a number of factors, which we expect would continue to affect our financial position and results of operations in the foreseeable future. Such factors include, but not limited to:

Change in government policies and regulations on public utility industries

Public utility industries in the PRC are highly regulated by the competent government authorities both at the national and local levels. As such, any significant changes in government policies, rules and regulations in public utility industries may materially affect our financial positions and results of operations.

Historically, all major aspects of piped gas industry are strictly regulated by the relevant government authorities, including procurement price, retail price, procurement channels, and pipeline network constructions. In recent years, the government authorities have taken various steps towards giving market participants more latitude in the piped gas industry. In April 2015, NDRC announced the PRC government's plan to accelerate reform on electricity, oil and gas industries. Significantly, NDRC indicated that the government will, for the first time, allow downstream suppliers like us to procure natural gas directly from overseas upstream suppliers. In addition, on July 1, 2015, the Shanghai Petroleum and Natural Gas Exchange commenced its pilot operation, through which natural gas can be traded as a commodity for the first time in China. These are significant changes from the existing market practice under which natural gas can only be procured from a few major upstream suppliers with gateway station prices set by NDRC. We believe such reforms will, in long term, reduce pricing uncertainty in our natural gas procurement and increase our autonomy in responding to changes in market condition, and as a result help us improve profit margin of the natural gas supply business.

The growing concerns on environmental issues in China in recent years have resulted in an increased focus on environmental protection related industries in the government's policy making. The PRC central government and local governments have implemented various measures and committed investments to encourage the development of the environmental protection industries. For example, the PRC central government is setting stricter water quality standards, leading to implementation of more stringent environmental regulatory requirements. Such stricter regulatory requirements, which we believe we are well positioned to respond to, may present new business opportunities for us.

For more information, please also refer to "Risk Factors — Risks Relating to Our Industries — Any future changes in laws or regulations or enforcement policies in relation to the public utility industries could materially and adversely affect our business, results of operations and financial condition".

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Piped Gas Procurement and Retail Prices

We generate the substantial majority of our revenue from our piped gas supply operations. Our gross profit of piped gas supply business was directly impacted by the piped gas procurement price we paid to upstream suppliers and the piped gas retail prices paid to us by end users. If we fail to pass on increase in procurement price to end users in a timely manner, or at all, our gross profit of piped gas supply business will be adversely affected.

Procurement price

Coal gas and natural gas procurement price is generally determined by local competent authorities based on the gateway station price set by the NDRC.

The table below sets forth information in relation to our gas procurement for the periods indicated:

	Year ended December 31,						Six months ended June 30,	
	2013		2014		2015		2016	
	%	%	%	%	%	%	%	
Procurement cost								
(RMB in million)								
Shanghai	2,342.6	89.8	2,392.1	86.3	2,462.3	87.1	1,450.2	89.2
Nantong Area	265.4	10.2	379.0	13.7	363.9	12.9	176.2	10.8
Total	2,608.0	100.0	2,771.1	100.0	2,826.2	100.0	1,626.4	100.0
Volume (million cubic meter)								
Shanghai ⁽¹⁾	1,123.4	89.6	1,057.2	86.9	1,029.9	86.2	594.8	86.1
Nantong Area ⁽²⁾	130.6	10.4	159.0	13.1	165.6	13.8	96.4	13.9
Total	1,254.0	100.0	1,216.2	100.0	1,195.5	100.0	691.2	100.0
Average procurement price (RMB/m³)⁽³⁾								
Shanghai	2.09	–	2.26	–	2.39	–	2.44	–
Nantong Area	2.03	–	2.38	–	2.20	–	1.83	–

Notes:

- (1) Including both coal gas and natural gas, and coal gas volume is converted to natural gas volume with a 2.3:1 heat value ratio. The year-on-year decreases in total volume of piped gas we procured in Shanghai were primarily due to the decreases in the volume of coal gas we procured, which had a lower heat value per unit than natural gas.
- (2) Including piped natural gas, LNG and CNG. Volume of LNG and CNG we procured accounted for 2.6%, 2.1%, 1.3% and 2.1% of total natural gas we procured in Nantong Area in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

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- (3) The average procurement price is calculated by dividing (a) procurement cost by (b) procurement volume for the period indicated.

Shanghai Gas Group and CNPC were our sole piped gas suppliers in Shanghai and Nantong Area. We have established long-term cooperative relationship with the suppliers and had not had any material dispute over piped gas procurement with such suppliers during the Track Record Period. However, any future material dispute with such supplier may affect our gas procurement and the piped gas supply business as a whole. For more details, please refer to “Risk Factors — Risks Relating to our Business — Any instability in, shortages of or disruption to, the supply of piped gas to us from our upstream piped gas suppliers could materially and adversely affect our business”. We may also be materially and adversely affected by a shortage of piped gas in the PRC in general.”

Retail prices

The piped gas retail prices differ for residential and non-residential end users, both are set by local DRCs or local price bureaus. Retail prices for non-residential usage, such as by industrial and commercial end users, are generally higher than those for residential usage. Local DRCs or local price bureaus may adjust the sales prices from time to time due to inflation, in response to increases of natural gas gateway station prices mandated by NDRC, or for other considerations.

The table below sets forth the average retail prices for residential and non-residential end users during the indicated periods:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Average retail price (RMB/m³, VAT exclusive)				
Shanghai				
Resident				
Coal gas	1.11	1.11	1.11	–
Natural gas	2.21	2.28	2.84	2.87
Non-resident				
Coal gas	1.91	2.06	2.08	–
Natural gas	3.40	3.69	3.79	3.50
Nantong Area				
Resident				
	1.99	1.99	2.02	2.14
Non-resident				
	3.82	3.64	3.63	3.00

In Shanghai, we supplied both coal gas and natural gas to end users based on their supply system before 2016. Revenue contribution from natural gas was 86.6%, 93.7%, 99.5% and 100.0% of total revenue from sales of piped gas in Shanghai in 2013, 2014 and 2015 and the six

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months ended June 30, 2016, respectively. The increases in percentages of revenue contribution were a result of the progression of our conversions project which replaced coal gas supply system with natural gas supply system for end users.

For more details on the relevant government policies of natural gas retail prices and analyses on changes of the average retail prices for residential and non-residential end users in Shanghai and Nantong Area, please refer to the sections “Regulatory Overview — The laws and Regulations of the PRC relating to the Municipal Public Utilities Industry — Natural Gas Supply and Sales Business — Natural gas pricing mechanism” and “Business — Our Public Utility Service Business — Piped gas supply operations — Sales of piped gas”.

Price sensitivity analysis

For illustrative purposes, the table below sets forth a sensitivity analysis of (1) the effect of fluctuations of our unit retail price of piped gas; and (2) the effect of fluctuations of our unit procurement price of piped gas on our profit before tax during the Track Record Period. Fluctuations are assumed to be 5% and 10%.

	Impact on profit before tax			
	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Retail price				
+/- 5%	+/-155,990	+/- 167,289	+/-181,922	+/-100,243
+/- 10%	+/- 311,981	+/-334,577	+/-363,843	+/-200,486
Procurement price				
+/- 5%	-/+130,399	-/+138,554	-/+141,310	-/+ 81,322
+/- 10%	-/+260,798	-/+ 277,108	-/+282,620	-/+162,644

Net investment income

During the Track Record Period, our net investment income consisted primarily of gain on disposal of equity interests in our portfolio companies and dividend income we received from portfolio companies. Net investment income has direct impact on our cash position and results of operations.

Net investment income in general was not recurring income and the amount we generated depended on the performance of the particular portfolio companies. We monitor the value and performance of our portfolio companies on an on-going basis and make assessment on the timing of the disposal of our investment from time to time. For details on our investment policies

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on investment disposal, please refer to the section “Business — Risk Control Policies and Measures — Post-investment risk control and on-going assessment”. Our decision to dispose of certain investment is also largely affected by market conditions. We generated net gain on disposal of financial assets of RMB55.4 million, RMB151.8 million and RMB42.3 million in 2013, 2014 and 2015 respectively, representing 17.7%, 40.5% and 7.9% of our profit for the same periods. We recorded net loss on disposal of financial assets of RMB8.4 million in the six months ended June 30, 2016.

We received dividend income mainly from invested companies held as available-for-sale financial assets in the amount of RMB21.0 million, RMB12.7 million, RMB44.4 million and RMB121.8 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 6.7%, 3.4%, 8.3% and 34.0% of the net profit for the same periods. We generally do not have influence over the dividend policy of our portfolio companies held as available-for-sale financial assets.

Share of results of our associated companies

Under IFRSs, associated companies are accounted for using the equity method. As such, our financial investments in our associated companies had significant impact on our financial position and results of operations during the Track Record Period. Share of results of associates affects our profit before tax but does not directly impact our cash position. Share of results of an associated company depends on the percentage of our holdings in such company and the financial performance of such company, over which we typically have significant influence but not effective control.

We derived the significant majority of our share of results of associated companies from our investments in Dazhong Transportation Group and Shenzhen Capital Group, which in aggregate accounted for 88.5%, 96.1%, 94.8% and 80.9% of our total share of results of associated companies, and 58.8%, 60.8%, 43.6% and 39.7% of our total profit before income tax in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Share of results of Shenzhen Capital Group was RMB116.9 million, RMB149.5 million, RMB127.4 million and RMB103.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 48.4%, 56.7%, 48.4% and 49.9% of the total share of results of associated companies during the same periods. Share of results of Dazhong Transportation Group was RMB96.7 million, RMB103.8 million, RMB122.3 million and RMB64.1 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively, representing 40.1%, 39.4%, 46.4% and 31.0% of the total share of results of associates during the same periods. As such, our results of operations are significantly affected by the financial performance of Dazhong Transportation Group and Shenzhen Capital Group.

Access to capital and cost of financing

Our financial position and results of operations are affected by our access to capital and cost of financing. During the Track Record Period, our main sources of financing are cash generated from operating activities, dividend income, bank borrowings and proceeds from corporate bonds offerings. The majority of our bank borrowings are short-term loans.

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Any change in the interest rate on our borrowings or the amount of our borrowings will affect our interest payments and finance costs and therefore, affect our cash flow, financial condition and results of operations. In addition, our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC Government to restrict money supply and availability of credit. Our finance cost was RMB167.8 million, RMB171.2 million, RMB176.6 million and RMB83.3 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

BASIS OF PRESENTATION

The financial information and the interim comparative financial information have been prepared in accordance with accounting policies which conform with IFRSs issued by the International Accounting Standards Board. In addition, the financial information and the interim comparative financial information include applicable disclosures required by the Hong Kong Listing Rules and by the disclosure requirements of the Companies Ordinance.

The financial information and the interim comparative financial information have been prepared under the historical cost basis except for available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair values as explained in the accounting policies set out below.

CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

Our financial statements and financial result are influenced by accounting policies, assumptions, estimates and management judgements, which necessarily have to be made in the course of preparation of the financial statements. We make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events. Accounting policies and management's judgements for certain items are especially critical for our results and financial situation due to their materiality in amount.

Our significant accounting policies, estimates and judgements which are important for an understanding of our financial condition and results of operations are set forth in detail in Notes 4 and 5 of Section II to our consolidated financial statements as set out in the Accountant's Report in Appendix IA to this prospectus.

Property, Plant and Equipment

Please see Note 4(e) in the Accountant's Report in Appendix IA to this prospectus for our accounting policies on property, plant and equipment.

Financial Instruments

Please see Note 4(j) in the accountant's report in Appendix IA to this prospectus for our accounting policies on financial instruments.

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Construction Contracts

Please see Note 4(k) in the Accountant's Report in Appendix IA to this prospectus for our accounting policies on construction contracts.

Service Concession Arrangements

Please see Note 4(m) in the Accountant's Report in Appendix IA to this prospectus for our accounting policies on service concession arrangements.

Revenue Recognition

Please see Note 4(n) in the Accountant's Report in Appendix IA to this prospectus for our accounting policies on revenue recognition.

Judgements

Consolidation of entities in which the Group holds 50% voting rights

The Directors consider that the Group has control over Shanghai Dazhong Gas, Nantong Dazhong Gas and Minhang Dazhong Micro-credit in which the Company directly or indirectly held 50% of their equity interests throughout the Track Record Period because the Directors determine that the Company has the practical ability to direct the relevant activities of these entities, which demonstrates that the Group have power over these entities, exposure to variable returns from these entities and ability to use its power to affect those variable returns.

Control over Shanghai Dazhong Gas

The Company and Shanghai Gas Group each holds a 50% equity interest in Shanghai Dazhong Gas and each party has the right to appoint three directors to the six-member board of directors. The legal representative and the chairman of the board of Shanghai Dazhong Gas, Mr. Yang Guoping is appointed by the Group pursuant to the articles of association of Shanghai Dazhong Gas.

Pursuant to IFRS 10, the Group shall consolidate the financial statements of Shanghai Dazhong Gas if it has control over Shanghai Dazhong Gas. In assessing whether the Group has control over Shanghai Dazhong Gas as an investee, the Group has assessed whether it has the following elements as stated in paragraph 7 of IFRS 10:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and

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- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

In this respect, the Directors consider that the Group has control over Shanghai Dazhong Gas in the following aspects:

- (i) The purpose of inviting the Group to acquire 50% equity interest in Shanghai Dazhong Gas in 2001 was to give effect that (1) the Group set up management and operation systems and maintains control over various aspects of the management and operation of Shanghai Dazhong Gas from the time it acquired the equity interest; and (2) Shanghai Gas Group or its predecessor, maintains a safe-guarding role in these matters. Towards that end, the design of Shanghai Dazhong Gas provided that:
- a provision in the shareholder agreement between Shanghai Gas Group and the Group specifically sets forth that the Group has the right to consolidate Shanghai Dazhong Gas' financial statements, which the Directors believe is an effort to stipulate and implement the purpose of granting the Group control over Shanghai Dazhong Gas, in addition to other factual arrangements;
 - all decisions on important operational matters of Shanghai Dazhong Gas are in practice made at the executive management meetings (董事長總經理聯席辦公會議) led by the chairman appointed by the Group; and
 - the Group controls the remuneration committee of the board through which the Group incentivize key management members to achieve operational and financial goals for a fiscal year.
- (ii) The Group controls decision making on relevant activities in the operations of Shanghai Dazhong Gas through appointment of key management members.

Relevant activities

Under IFRS, relevant activities are defined as the activities of the investee that significantly affect the investee's returns. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to: (i) selling and purchasing of goods or services; (ii) managing financial assets during their life (including upon default); (iii) selecting, acquiring or disposing of assets; (iv) researching and developing new products or processes; and (v) determining a funding structure or obtaining funding.

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After due considerations, the Group considers, and the Joint Sponsors concur, that relevant activities that significantly affect the return of Shanghai Dazhong Gas include:

a. Design and construction of gas pipelines

Pipelines are the main fixed assets of Shanghai Dazhong Gas, and design and construction of gas pipelines significantly affect Shanghai Dazhong Gas' returns in two major ways: (1) when and where to construct new gas pipelines and what technologies to be adopted are critical strategic decisions which directly impact the number of new residential and non-residential end users Shanghai Dazhong Gas can acquire as a result; and (2) the net cash flows available to the Company are managed in part through the planning and monitoring of the time and cost it takes to construct the new gas pipelines.

b. Appointment of key managerial personnel, appraisal of such personnel, and fixing the remuneration of such personnel by the Company — appointment of key management members is an example of investor power as set forth in paragraph B15(b) of Appendix B to IFRS 10.

c. Working capital decisions, including budgets and financial management — Working capital related matters vital to Shanghai Dazhong Gas include the preparation of the annual budget and the formulation of the dividend policy.

d. Management of supply and sales volume difference and major customer discount — Although procurement and sales of piped gas are not relevant activities on which investors can make decisions due to the regulatory requirement as explained below, Shanghai Dazhong Gas can influence profit and returns over sales of piped gas through the management of supply and sales volume difference and major customer discount. Supply and sales volume difference, which can be affected by various factors such as natural attrition, gas leakage and end user tampering, is an important performance indicator of a piped gas supplier. The effectiveness in managing and reducing such difference can have a significant and direct impact on profit. In addition, the Company has certain latitude in negotiating retail prices with individual non-residential end users within a prescribed price range pursuant to relevant rules and regulations, such as price discount to major non-residential customers.

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- e. *Strategic investments* — Important strategic investments by Shanghai Dazhong Gas include the acquisition and disposal of equity interests in other industry participants.

Conversely, the Group decides that:

Procurement and sales of piped gas are not relevant activities of Shanghai Dazhong Gas on which investors can make decisions — As piped gas supply is related to public interests and social welfare, the applicable regulatory regime provides strict control to the competent government authorities over piped gas supply operations. The competent government authorities set procurement prices and retail prices and impose obligations on upstream and downstream suppliers to maintain stable and uninterrupted supply to all end users. Such strict regulations make it difficult for either the Company or Shanghai Gas Group to control the procurement and sales of piped gas by Shanghai Dazhong Gas. For more details on the relevant government regulations, please refer to the section “Business — Our Public Utility Service Business — Piped Gas Procurement — Piped gas suppliers — Piped gas supplier in Shanghai”. In particular, the Group is advised by its PRC legal advisers that such government regulations are applicable to and enforceable against Shanghai Gas Group and Shanghai Gas Group does not have the option to adjust the gas procurement price payable by Shanghai Dazhong Gas to affect its return or decision to cease or reduce gas supply to Shanghai Dazhong Gas in the event of a dispute. Consequently, neither the Company nor Shanghai Gas Group has the power to affect Shanghai Dazhong Gas’ return by making decisions on key aspects of the procurement and sales of piped gas, such as procurement volume, sales volume, customer selection, procurement price and retail price.

Decision-making mechanism on relevant activities

The key management members appointed by the Company include: (a) the chairman of the board and legal representative; (b) the secretary of the board appointed by the chairman of the board; (c) the majority of the remuneration committee members; and (d) the majority of the key management members.

- a. *Chairman of the board and legal representative of Shanghai Dazhong Gas* — Pursuant to the articles of association of Shanghai Dazhong Gas, the Company has the right to appoint the chairman of the board, who also acts as the legal representative of Shanghai Dazhong Gas. Mr. Yang Guoping exerts important decision-making powers as the legal representative of Shanghai Dazhong Gas. The board of the directors of Shanghai Dazhong Gas currently has an even number of directors and the articles of association of Shanghai Dazhong Gas do not provide a mechanism of casting vote by the chairman of the board in the event a board resolution can neither be passed nor rejected due to an impasse

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of directors' votes. However, the Company is advised by its PRC legal adviser and the Joint Sponsors are also advised by their PRC legal adviser that, pursuant to the relevant PRC laws, a legal representative of a company is empowered to handle all civil matters on behalf of the company in his representative role of the company as a legal person. His right to represent and bind the company is expressly granted by law, and not dependent on any internal authorization by the board of directors or shareholders' meeting. As such, the Company is advised by its PRC legal adviser and the Joint Sponsors are also advised by their PRC legal adviser that, in the event a board resolution in relation to a certain matter can neither be passed nor rejected due to impasse, execution of signature or application of seal or any relevant action taken by the legal representative in relation to such matter will not be considered invalid for lack of a board resolution. Such actions are binding on the company and their validity are not affected by whether the relevant decision-making procedures were followed. Mr. Yang Guoping in his capacity as the legal representative has the right to exert his decision-making powers on critical matters, in particular on matters for which no decision-making process is carried out. Historically, Mr. Yang Guoping effectively exerted decision-making power over certain matters for which no board resolution was passed.

In addition, in practice, Mr. Yang Guoping in his capacity as the chairman of the board has been directing the operation and management of Shanghai Dazhong Gas by:

- acting as the ultimate decision-maker on important operational matters at the executive management meetings held with the general manager and other key management members;
- maintaining control over payments to third parties; and
- acting at the remuneration committee, in which he forms a majority with another director appointed by the Company.

The Company is advised by its PRC legal adviser that its rights to appoint the chairman and legal representative of Shanghai Dazhong Gas can only be changed by amendments to the relevant provisions of the articles of association, which in turn require the approval of the two-thirds vote at the shareholders' meeting. Since the Company holds 50% voting rights in Shanghai Dazhong Gas, it is advised by the PRC legal adviser that it can always effectively block any proposal to change its rights to appoint the chairman and legal representative of Shanghai Dazhong Gas.

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b. *Secretary of the board* — Pursuant to the articles of association and the shareholders agreement of Shanghai Dazhong Gas, the secretary of the board shall be appointed by the chairman of the board. The secretary of the board has been appointed by the chairman of the board since 2001.

The secretary of the board has been playing an important role in the management of Shanghai Dazhong Gas, through:

- drafting and updating the performance appraisal standards and assisting the chairman of the board in annual performance appraisal;
- assisting the chairman of the board and actively participating in the decision-making of daily operations in board meetings and the executive management meetings; and
- preparing meeting agenda of the board meetings and shareholders' meetings.

c. *the majority of the remuneration committee members* — The remuneration committee set up by the board of directors of Shanghai Dazhong Gas is responsible for appraising the performance and determining the remuneration of key management members, including the general manager, the chief economist, the chief engineer, the chief financial officer, and other vice general managers. Decisions made by the remuneration committee do not need to be further ratified by the board or at the shareholder meetings. The remuneration committee contains three members, including the chairman of the board, another director appointed by the Company and a director appointed by Shanghai Gas Group. Decisions are made by majority votes. As such, the Company essentially controls the decisions made by the remuneration committee. In addition, the performance appraisal standards were drafted and are regularly updated by the secretary of the board and ratified by the chairman of the board. As such, the Company's control over both the appraisal standards announced at the beginning of a fiscal year and the performance appraisal conducted at the end of a fiscal year give the Company power to incentivize key management members to achieve operational and financial goals set by the Company for a fiscal year and act in line with the overall strategic decisions made by the Company.

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d. *the majority of the key management members* — The Company also controls decision making on relevant activities in the daily operations of Shanghai Dazhong Gas through appointment of a majority of the key management members. The table below sets forth the key management members appointed by the Company and their respective control over certain aspects of Shanghai Dazhong Gas' daily operations:

Position	Name	Main responsibilities
Chairman of the board (董事長)	Yang Guoping	Overall decision making on business strategies and operations and overseeing all major aspects of the daily operations; Leading the executive management meetings
Chief engineer, Vice general manager (總工程師, 副總經理)	Zhuang Jianhao	Overseeing the design, progress control, quality control and capital expenditure of pipeline constructions; Managing supply and sales volume difference; and Overseeing internal audit and information technology
Chief economist (總經濟師)	Zhuang Ziguo	Compiling annual budget plan of departments and subsidiaries based on the budget plan; Conducting performance appraisal of departments and subsidiaries based on the budget plan; and Overseeing cost control
Chief financial officer (財務總監)	Zhao Ruijun	Proposing dividend plans; Compiling final accounts and overseeing daily financial operations; and Compiling annual budget plan
Secretary of the board (董事會秘書)	Wenren Qing	Drafting and updating performance appraisal standards; Assisting the chairman of the board and actively participating in decision-making of daily operations; and Preparing meeting agenda of the board meetings and shareholders' meetings.

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In comparison, Shanghai Gas Group appointed the general manager of Shanghai Dazhong Gas. The general manager's main responsibility is to carry out the decision of the chairman made at the executive management meetings and report to the chairman of the board on important operation matters. The Directors confirm that since 2001, Shanghai Gas Group has neither taken any leading role nor been actively involved in the daily operations and management of Shanghai Dazhong Gas.

- (iii) The Group's control over the relevant activities of Shanghai Dazhong Gas has been well-established over 15 years and its current ability to direct the relevant activities cannot be changed unilaterally by Shanghai Gas Group.
- (iv) The Group is exposed to the variable returns such as dividends from Shanghai Dazhong Gas.
- (v) The Group exercises decision-making power as a principal, rather than as an agent of any other party, as there were no rights held by other parties to remove the Group's representatives as decision-makers in Shanghai Dazhong Gas, or those that restrict the Group's discretions.

Since August 2015, the Group became aware that Shenergy Group, which wholly-owns Shanghai Gas Group, has been issuing bond offering circulars in which Shenergy Group consolidated the financial statements of Shanghai Dazhong Gas. The Directors have reviewed the bond offering circulars published by Shenergy Group and concluded that the Group's consolidation of Shanghai Dazhong Gas is still appropriate with all the reasons as mentioned above.

Control over Nantong Dazhong Gas

The Group and Nantong Gas General each holds 50% equity interest in Nantong Dazhong Gas and each has appointed three directors to the board of directors which currently comprises of six members. The Group has also appointed the chairman of the board, the vice general manager and the financial controller of Nantong Dazhong Gas. In addition, the procedural rules of the board of directors of Nantong Dazhong Gas specifically provides that the chairman of the board has (i) a casting vote in the event of a deadlock of board vote and (ii) a veto right on matters in daily operations.

Control over Minhang Dazhong Micro-credit

The Company is the largest shareholder of Minhang Dazhong Micro-credit and controls its board of directors. The Company holds 50% equity interest in Minhang Dazhong Micro-credit. The remaining 50% equity interest in Minhang Dazhong Micro-credit is held as to 20% by Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司), a wholly-owned subsidiary of Dazhong Transportation Group, 10% by Songz Automobile Air Conditioning Co. Ltd.* (上海加冷松芝汽車空調股份有限公司) (held as to 2.16% by our Company), 10% by

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Shanghai Tofflon Science & Technology Co., Ltd.* (上海東富龍科技股份有限公司), an Independent Third Party, and 10% by Shanghai Gumei Asset Management Co., Ltd.* (上海古美資產經營管理有限公司), an Independent Third Party. The Company appointed three directors to the board of directors of Minhang Dazhong Micro-credit, which comprises of five members.

Significant influence over investees

The Group holds 13.93% equity interests in Shenzhen Capital Group. The Directors consider that the Group has a significant influence over Shenzhen Capital Group based on the following factors: (1) the Group has the right to appoint two directors out of a total of 13 directors of the board of directors of Shenzhen Capital Group and (2) these two directors also act as members of strategy and budget committee, remuneration and assessment committee and nomination committee of Shenzhen Capital Group. The above demonstrates that the Group actively participates in Shenzhen Capital Group's operating and financial policies, and thus investment in Shenzhen Capital Group is accounted for as an associate of the Group.

The Group also has investments in two entities, namely Shanghai Hangxin and New China Fund Management Co., Ltd.* (新華基金管理有限公司), in which the Group holds 16.13% and 13.75% of their equity interests respectively. The Directors consider that the Group has significant influence over these two entities based on the following factors: (1) the Group has appointed one director (also the chairman) to the boards of directors of each of the entities, namely nine executive directors in Shanghai Hangxin and four executive directors and three independent executive directors in New China Fund Management Co., Ltd.* (新華基金管理有限公司); and (2) the appointed directors actively participate in the policy-making process of these entities. The above demonstrates that the Group has significant influence over these two entities, and thus these investments have been accounted for as associates of the Group. The Group disposed its equity interests in New China Fund Management Co., Ltd.* (新華基金管理有限公司) in 2013.

The Group has investments in three other entities in which it holds 30%, 40% and 42.5% of their equity interests. The Directors consider that the Group has no significant influence over these entities based on the following factors: (1) the Group is unable to obtain from these entities timely or adequate financial information required to apply the equity method and (2) the shareholder that holds the majority ownership of these entities operates without regard to the views of the Group. The Group therefore does not have the power to participate in these entities' operating and financial policies, and thus it accounts for these investments as available-for-sale financial assets.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets forth our consolidated statements of profit or loss and other comprehensive income.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Revenue	3,929,849	4,212,557	4,616,595	2,605,343	2,544,025
Cost of sales	(3,461,070)	(3,691,806)	(3,886,987)	(2,128,292)	(2,149,361)
Gross profit	468,779	520,751	729,608	477,051	394,664
Other income and gains	50,048	48,789	45,820	20,453	12,954
Selling and distribution costs	(97,564)	(108,859)	(143,172)	(69,335)	(72,792)
Administrative expenses	(306,323)	(299,446)	(354,263)	(187,332)	(143,967)
Investment income and gains, net	44,446	162,968	72,081	40,650	106,930
Gain on disposal of a subsidiary	69,072	–	–	–	–
Gain on partial disposal of equity interests in an associate	–	–	216,386	216,386	–
Compensation income/(loss) in connection with disposal of a subsidiary in prior year	61,372	–	(80,000)	(80,000)	–
Finance costs	(167,827)	(171,156)	(176,629)	(86,574)	(83,304)
Share of results of associates	241,332	263,716	263,326	166,593	206,605
Profit before income tax expense	363,335	416,763	573,157	497,892	421,090
Income tax expense	(49,898)	(42,508)	(37,432)	(40,077)	(62,298)
Profit for the year/period	313,437	374,255	535,725	457,815	358,792

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	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Other comprehensive income for the year/period	(82,989)	249,630	997,872	714,155	(80,054)
Total comprehensive income for the year/period	<u>230,448</u>	<u>623,885</u>	<u>1,533,597</u>	<u>1,171,970</u>	<u>278,738</u>
Profit for the year/period attributable to:					
Owners of the Company	279,068	340,469	463,800	402,422	300,083
Non-controlling interests	34,369	33,786	71,925	55,393	58,709
	<u>313,437</u>	<u>374,255</u>	<u>535,725</u>	<u>457,815</u>	<u>358,792</u>
Earnings per share					
Basic and diluted	<u>RMB0.11</u>	<u>RMB0.14</u>	<u>RMB0.19</u>	<u>RMB0.16</u>	<u>RMB0.12</u>

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DESCRIPTION OF SELECTED LINE ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

The table below sets forth a breakdown of our revenue by segments for the indicated periods.

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Public Utility Services										
Piped gas supply	3,695,224	94.0	3,960,609	94.0	4,359,700	94.4	2,478,541	95.1	2,379,022	93.5
Wastewater treatment ¹	167,294	4.3	166,371	4.0	148,256	3.2	83,020	3.2	94,068	3.7
Public infrastructure projects ¹	67,331	1.7	63,289	1.5	58,112	1.3	29,915	1.2	28,687	1.1
	<u>3,929,849</u>	<u>100.0</u>	<u>4,190,269</u>	<u>99.5</u>	<u>4,566,068</u>	<u>98.9</u>	<u>2,591,476</u>	<u>99.5</u>	<u>2,501,777</u>	<u>98.3</u>
Financial Services										
Micro-credit	–	–	22,288	0.5	28,996	0.6	12,844	0.5	10,907	0.5
Financial leasing	–	–	–	–	21,531	0.5	1,023	<0.1	31,341	1.2
Total	<u><u>3,929,849</u></u>	<u><u>100.0</u></u>	<u><u>4,212,557</u></u>	<u><u>100.0</u></u>	<u><u>4,616,595</u></u>	<u><u>100.0</u></u>	<u><u>2,605,343</u></u>	<u><u>100.0</u></u>	<u><u>2,544,025</u></u>	<u><u>100.0</u></u>

Note:

- (1) We accounted for the wastewater treatment operations and public infrastructure projects under BOT and TOT arrangements as service concession arrangements under IFRIC 12 “Service Concession Arrangements”. Consideration we received or receivable by us for the construction services rendered under service concession arrangement were recognized at their fair value as a financial asset or an intangible asset. A financial asset was recognized to the extent that we have an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered. An intangible asset was recognized to the extent that we receive a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. For details of accounting treatments, please refer to note 4(m) of the Accountant’s Report in Appendix IA to this prospectus.

Piped gas supply

We generated the substantial majority of our revenue from our piped gas supply operations, which accounted for 94.0%, 94.0% and 94.4% of our total revenue in 2013, 2014 and 2015, respectively, and 95.1% and 93.5% of our total revenue in the six months ended June 30, 2015 and 2016, respectively. Revenue generated from piped gas supply operations was RMB3,695.2 million, RMB3,960.6 million and RMB4,359.7 million in 2013, 2014 and 2015, respectively, and RMB2,478.5 million and RMB2,379.0 million in the six months ended June 30, 2015 and 2016, respectively.

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The table below sets forth a breakdown of our revenue generated from piped gas supply for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(Unaudited)</i>									
Sales of piped gas	3,119,809	84.4	3,345,772	84.5	3,638,430	83.5	2,030,905	81.9	2,004,861	84.2
Pipeline construction	246,937	6.7	293,283	7.4	394,199	9.0	273,058	11.0	194,290	8.2
Gas connection	204,317	5.5	203,984	5.1	207,343	4.8	102,976	4.2	108,331	4.6
Sales of related products	124,161	3.4	117,570	3.0	119,728	2.7	71,602	2.9	71,540	3.0
Total	<u>3,695,224</u>	<u>100.0</u>	<u>3,960,609</u>	<u>100.0</u>	<u>4,359,700</u>	<u>100.0</u>	<u>2,478,541</u>	<u>100.0</u>	<u>2,379,022</u>	<u>100.0</u>

Sales of piped gas. Sales of piped gas consisted of retail gas fees paid to us by our residential and non-residential end users. The fees were calculated by multiplying the relevant unit retail price by the volume of piped gas consumed. We generated a substantial majority of our revenue in piped gas supply operations from the sales of piped gas, which accounted for 84.4%, 84.5% and 83.5% of revenue generated from piped gas supply operations in 2013, 2014 and 2015, respectively, and 81.9% and 84.2% of revenue generated from piped gas supply operations in the six months ended June 30, 2015 and 2016, respectively. Revenue generated from sales of piped gas was RMB3,119.8 million, RMB3,345.8 million and RMB3,638.4 million in 2013, 2014 and 2015, respectively, and RMB2,030.9 million and RMB2,004.9 million in the six months ended June 30, 2015 and 2016, respectively. The increases in revenue generated from sales of piped gas from 2013 to 2015 were primarily due to increases in the natural gas sales volume as a result of increases in the numbers of both residential and non-residential end user accounts. In addition, revenue increases in 2014 and 2015 were also partially attributable to Shanghai DRC's decision to (i) increase the natural gas retail prices for non-residential end users and (ii) implement the tiered price structure for residential end users. The decrease in revenue in the six months ended June 30, 2016 from the six months ended June 30, 2015 was primarily due to the downward adjustment of natural gas benchmark retail prices for non-residential end users in Shanghai and Nantong Area as mandated by the respective competent government authorities in December 2015. For more details on our sales volume and unit prices during the Track Record Period, please refer to the section "Business — Our Public Utility Service Business — Piped Gas Supply Operations — Sales of piped gas" and "Regulatory Overview — The Laws and Regulations of the PRC Relating to the Municipal Public Utilities Industry — Natural Gas Supply and Sales Business — Natural gas pricing mechanism".

Pipeline construction. We generate revenue from the construction of pipelines for property owners of new commercial and industrial buildings or in prescribed area pursuant to government urban planning. Property owners or government authorities will pay us construction fees for construction projects they commissioned us to do. We generally engage third-party

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subcontractors to perform construction works for large-size construction projects. Revenue generated from pipeline construction was RMB246.9 million, RMB293.3 million and RMB394.2 million in 2013, 2014 and 2015, respectively, representing 6.7%, 7.4% and 9.0% of revenue generated from piped gas supply operations during the same periods. Revenue generated from pipeline construction was RMB273.1 million and RMB194.3 million in the six months ended June 30, 2015 and 2016, respectively, representing 11.0% and 8.2% of revenue generated from piped gas supply operations during the same periods. Revenue from pipeline construction was affected by urbanization rate and scale of the areas in which we provide gas supply services and local governments' urban planning in any given period. Revenue from pipeline construction is recognized based on stages or percentages of completion of the particular projects.

Gas connection. We generate revenue from the connection fees we charge for the construction of pipelines for property developers of new residential buildings and the connection of such pipelines to our pipeline network. Such connection fees are recognized as revenue proportionally over a period of 10 years on a linear basis in accordance with the Provisions on Accounting Treatments on One-off Connection Fees (關於企業收取的一次性入網費會計處理的規定) issued by the Ministry of Finance on May 30, 2003, and our Directors believe such method is in line with the industry norm. As a result, gas connection revenue of any fiscal year is affected by the aggregate number of new residential end users that were added to our supply network in previous years over a 10-year period. During the Track Record Period, revenue generated from gas connection was relatively stable and was RMB204.3 million, RMB204.0 million and RMB207.3 million in 2013, 2014 and 2015, respectively, representing 5.5%, 5.1% and 4.8% of revenue generated from piped gas supply operations during the same periods. Revenue generated from gas connection was RMB103.0 million and RMB108.3 million in the six months ended June 30, 2015 and 2016, respectively, representing 4.2% and 4.6% of revenue generated from piped gas supply operations during the same periods.

Sales of related products. We also generated revenue from sales to our subcontractors certain components, such as pipes and fittings that were needed for the relevant construction works commissioned by us. We purchased such components from third party suppliers. Revenue generated from sales of related products was RMB124.2 million, RMB117.6 million and RMB119.7 million in 2013, 2014 and 2015, respectively, representing 3.4%, 3.0% and 2.7% of revenue generated from piped gas supply operations during the same periods. Revenue generated from sales of related products was RMB71.6 million and RMB71.5 million in the six months ended June 30, 2015 and 2016, respectively, representing 2.9% and 3.0% of revenue generated from piped gas supply operations during the same periods.

Wastewater treatment

During the Track Record Period, revenue generated from wastewater treatment operations consisted of payments made to us by local governments, pursuant to the BOT or TOT arrangements during the concession periods or BT arrangement during the repurchase periods. Revenue generated from wastewater treatment operations was RMB167.3 million,

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RMB166.4 million and RMB148.3 million in 2013, 2014 and 2015, respectively, and RMB83.0 million and RMB94.1 million in the six months ended June 30, 2015 and 2016, respectively. Revenue generated from wastewater treatment operations accounted for 4.3%, 4.0% and 3.2% of our total revenue in 2013, 2014 and 2015, respectively, and 3.2% and 3.7% of our total revenue in the six months ended June 30, 2015 and 2016, respectively.

The table below sets forth a breakdown of our revenue from wastewater treatment operations for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(Unaudited)</i>									
Operational income	127,783	76.4	128,180	77.0	112,251	75.7	64,286	77.4	77,671	82.6
Financial income	39,511	23.6	38,191	23.0	36,005	24.3	18,734	22.6	16,397	17.4
Total	<u>167,294</u>	<u>100.0</u>	<u>166,371</u>	<u>100.0</u>	<u>148,256</u>	<u>100.0</u>	<u>83,020</u>	<u>100.0</u>	<u>94,068</u>	<u>100.0</u>

Operational income. Operational income was recorded during the operational phase of plants when wastewater treatment is provided, in exchange of tariff payment made by the local governments pursuant to the BOT or TOT arrangements. Operational income consisted of income generated from wastewater treatment plants we operated in Jiading and Xuzhou projects, and was affected primarily by the volume of wastewater directed to our plants and treated by us during any given periods. In addition, pursuant to the relevant concession agreements of the wastewater treatment plants, unit treatment prices are generally subject to adjustment every three to five years through negotiation between us and the local governments based on the terms and conditions set forth in the BOT or TOT agreements.

Financial income. Financial income was income generated from tariff payment made by the local government at the Xiaoshan wastewater treatment plant under the BT arrangement.

Public infrastructure projects

During the Track Record Period, revenue generated from public infrastructure projects consisted of payments made to us by the local governments pursuant to the BT or BOT arrangements during the repurchase or concession periods. Revenue generated from public infrastructure projects was RMB67.3 million, RMB63.3 million and RMB58.1 million in 2013, 2014 and 2015, respectively, and RMB29.9 million and RMB28.7 million in the six months ended June 30, 2015 and 2016, respectively. Revenue generated from public infrastructure projects accounted for 1.7%, 1.5% and 1.3% of our total revenue in 2013, 2014 and 2015, respectively, and 1.2% and 1.1% of our total revenue in the six months ended June 30, 2015 and 2016, respectively.

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The table below sets forth a breakdown of our revenue from public infrastructure projects for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Operational income	12,779	19.0	12,787	20.2	12,817	22.1	6,105	20.4	7,413	25.8
Financial income	54,552	81.0	50,502	79.8	45,295	77.9	23,810	79.6	21,274	74.2
Total	<u>67,331</u>	<u>100.0</u>	<u>63,289</u>	<u>100.0</u>	<u>58,112</u>	<u>100.0</u>	<u>29,915</u>	<u>100.0</u>	<u>28,687</u>	<u>100.0</u>

Operational income. Operational income was attributable to the portion of payment from the local government as compensation for our operational expenses of Xiangyin Road Tunnel under the BOT arrangement, and was relatively stable during the Track Record Period. Operational income of the Xiangyin Road Tunnel was negotiated with the local government by taking into consideration various factors, including maintenance cost and overheads. We do not collect tariff on vehicles for use of the Xiangyin Road Tunnel and our operational income will not depend on the traffic volume either. Such income remained relatively stable during the Track Record Period.

Financial income. Financial income consisted of (i) the portion of payment from the local government as tariff for the Xiangyin Road Tunnel project pursuant to the BOT arrangement, which is proportional to the outstanding investment we made pursuant to the BOT arrangement and (ii) tariff payments by the local governments for Wuyi Road and Paotong Road projects in Changzhou City pursuant to the BT arrangements. The tariff payments were generally proportional to the un-recouped initial investment amount, which was recorded as non-current trade receivables. The decreases in financial income were primarily due to the decreases of the un-recouped initial investment amount, as we continue to receive repayment from government over the concession periods.

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Cost of Sales

Cost of sales by segments

The table below sets forth a breakdown of our cost of sales by segments for the indicated periods.

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Public utility services										
Piped gas supply	3,390,489	98.0	3,622,582	98.1	3,813,407	98.1	2,092,863	98.3	2,102,483	97.8
Wastewater treatment	59,810	1.7	57,098	1.5	60,673	1.6	29,141	1.4	40,164	1.9
Public infrastructure projects	10,771	0.3	11,015	0.3	11,265	0.3	5,633	0.3	6,250	0.3
Financial services										
Micro-credit	-	-	1,111	<0.1	1,508	<0.1	655	<0.1	464	<0.1
Financial leasing	-	-	-	-	134	<0.1	-	-	-	-
Total	3,461,070	100.0	3,691,806	100.0	3,886,987	100.0	2,128,292	100.0	2,149,361	100.0

Piped gas supply

Cost of sales associated with piped gas supply operations accounted for 98.0%, 98.1% and 98.1% of our total cost of sales in 2013, 2014 and 2015, respectively, and 98.3% and 97.8% of our total cost of sales in the six months ended June 30, 2015 and 2016, respectively.

During the Track Record Period, cost of sales associated with piped gas supply operations consisted primarily of procurement fees we paid to our upstream gas suppliers. Procurement cost of piped gas was RMB2,608.0 million, RMB2,771.1 million and RMB2,826.2 million in 2013, 2014 and 2015, respectively, representing 76.9%, 76.5% and 74.1% of total cost of sales in piped gas supply operations during the same periods. Procurement cost of piped gas was RMB1,577.1 million and RMB1,626.4 million in the six months ended June 30, 2015 and 2016, respectively, representing 75.4% and 77.4% of total cost of sales in piped gas supply operations during the same periods. The increases in procurement cost of piped gas were primarily due to the increase of the average procurement price in Shanghai Area during the Track Record Period. The cost of sales associated with piped gas supply operations also included depreciation of our pipelines.

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Wastewater treatment

During the Track Record Period, cost of sales associated with wastewater treatment consisted of operational cost incurred by our Jiading and Xuzhou projects and mainly included transportation cost for sludge, electricity cost, equipment depreciation and chemicals for wastewater treatment. Cost of sales from wastewater treatment was RMB59.8 million, RMB57.1 million and RMB60.7 million in 2013, 2014 and 2015, respectively, representing 1.7%, 1.5% and 1.6% of our total cost of sales during the same period. Cost of sales from wastewater treatment was RMB29.1 million and RMB40.2 million in the six months ended June 30, 2015 and 2016, respectively, representing 1.4% and 1.9% of total cost of sales during the same periods.

Public infrastructure projects

During the Track Record Period, cost of sales associated with public infrastructure projects consisted of operational costs of Xiangyin Road Tunnel project including maintenance fees we paid to subcontractors we engaged. Cost of sales from public infrastructure projects was RMB10.8 million, RMB11.0 million and RMB11.3 million in 2013, 2014 and 2015, respectively, representing 0.3%, 0.3% and 0.3% of our total cost of sales during the same period. Cost of sales from public infrastructure projects was RMB5.6 million and RMB6.3 million in the six months ended June 30, 2015 and 2016, respectively, representing 0.3% and 0.3% of total cost of sales during the same periods.

Financial services

Cost of sales associated with financial services consisted mainly of applicable business tax. The majority of cost attributable to financial services was interest payments on loans we borrowed to fund the financial services. Such interest payments were recognized as finance cost and not cost of sales associated with financial services. As such, the gross profit and gross profit margin are not indicative of our results attributable to financial services.

Gross Profit and Gross Profit Margin

Our overall gross profit was RMB468.8 million, RMB520.8 million and RMB729.6 million in 2013, 2014 and 2015, respectively, representing overall gross profit margin of 11.9%, 12.4% and 15.8% during the same periods. Our overall gross profit was RMB477.1 million and RMB394.7 million in the six months ended June 30, 2015 and 2016, respectively, representing overall gross profit margin of 18.3% and 15.5% during the same periods.

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The table below sets forth the breakdown of gross profits and gross profit margin of our main operational segments for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(Unaudited)</i>									
Public utility services										
Piped gas supply	304,735	8.2	338,027	8.5	546,293	12.5	385,678	15.6	276,539	11.6
Wastewater treatment	107,484	64.2	109,273	65.7	87,583	59.1	53,879	64.9	53,904	57.3
Public infrastructure projects	56,560	84.0	52,274	82.6	46,847	80.6	24,282	81.2	22,437	78.2
Financial services										
Micro-credit	-	-	21,177	95.0	27,488	94.8	12,189	94.9	10,443	95.7
Financial leasing	-	-	-	-	21,397	99.4	1,023	100.0	31,341	100.0
Total	468,779	11.9	520,751	12.4	729,608	15.8	477,051	18.3	394,664	15.5

The increases in gross profit margin of piped gas supply operations from 8.2% in 2013 to 8.5% in 2014 and then further to 12.5% in 2015 were primarily attributable to the increase in retail sales prices for non-residential users in Shanghai and the implementation of the tiered natural gas retail prices for residential end users based on usage in September 2014. The decrease in gross profit margin of piped gas supply operations from 15.6% in the six months ended June 30, 2015 to 11.6% in the six months ended June 30, 2016 was primarily attributable to the decrease in the average piped gas retail price for non-residential end users in Shanghai.

Gross profit margins for wastewater treatment for 2013 and 2014 were relatively stable due to the nature of the businesses. The decreases in our gross profit margins from 2014 to 2015 and from the six months ended June 30, 2015 to the six months ended June 30, 2016 were primarily due to VAT we paid pursuant to the Notice on the Issuance of the Subsidy Catalogue for Resource Integrated Utilization Products and VAT on Labor (關於印發資源綜合利用產品和勞務增值稅優惠目錄的通知 (Cai Shui [2015] No. 78), the “**2015 Notice 78**”) promulgated by the Ministry of Finance and the National Tax Bureau on July 1, 2015.

Gross profit margins for public infrastructure projects decreased slightly each year during the Track Record Period primarily due to the fact that the financial income we generated from such projects decreased as we recovered our initial investment over time and the cost of operating the Xiangyin Road tunnel was relatively stable during the Track Record Period. The gross profit of public infrastructure projects did not account for finance cost we incurred to fund the projects.

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Other Income and gains

The table below sets forth our other income and gains for the indicated periods:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Bank interest income	10,738	12,417	17,319	7,575	6,543
Other interest income	443	4,554	4,554	2,277	2,277
Government grants	19,832	14,825	12,700	2,839	4,568
(Loss)/gain on disposal of property, plant and equipment, net	(2,297)	2,666	(9,067)	45	(7,240)
Gain on disposal of associates	6,322	–	–	–	–
Rental income	10,996	10,490	11,461	5,723	5,141
Others	4,014	3,837	8,853	1,994	1,665
Total	50,048	48,789	45,820	20,453	12,954

Bank interest income consisted primarily of interest income from our cash deposit at banks. The increases from 2013 to 2014 and then to 2015 were primarily due to increases in our bank deposits during the corresponding periods.

Other interest income in 2014 and 2015 and the six months ended June 30, 2015 and 2016 consisted primarily of interest income generated from our loan to Shenzhen Capital Group. For more details, please refer to the section “Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Interest in associates — Investment in Shenzhen Capital Group”.

Government grants consisted primarily of discretionary grants and subsidies we received from various local governments mainly in connection with our piped gas supply operations and wastewater treatment operations. Such government grants were project or entity specific and depended on the applicable local government incentives in any given period. Government grants were RMB19.8 million, RMB14.8 million and RMB12.7 million in 2013, 2014 and 2015, respectively, and RMB2.8 million and RMB4.6 million in the six months ended June 30, 2015 and 2016, respectively.

Net gain or loss on disposal of property, plant and equipment consisted primarily loss incurred or gain obtained in connection with disposal of gas pipes or facilities that were out of date or replaced by renovation in our piped gas supply operations.

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Rental income consisted primarily of rental fee paid to us by tenants of our commercial real estate properties.

Others in other income and gains included, among other things, fees for ad-hoc small-scale construction or maintenance services.

Selling and Distribution Expenses

The table below sets forth our selling and distribution expenses for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Staff salary	65,158	66.8	63,979	58.8	94,340	65.9	47,274	68.2	49,252	67.7
Safety inspection expenses	7,157	7.3	12,848	11.8	14,270	10.0	9,490	13.7	7,604	10.5
Depreciation	3,897	4.0	4,054	3.7	4,532	3.2	2,219	3.2	2,611	3.6
Repair and maintenance	5,778	5.9	9,254	8.5	8,981	6.3	1,702	2.5	3,286	4.5
Service charges	4,270	4.4	4,648	4.3	5,585	3.9	2,775	4.0	1,962	2.7
Logistics expenses	3,589	3.7	3,969	3.6	3,787	2.6	1,541	2.2	1,447	2.0
Others	7,715	7.9	10,107	9.3	11,677	8.1	4,334	6.2	6,630	9.0
	<u>97,564</u>	<u>100.0</u>	<u>108,859</u>	<u>100.0</u>	<u>143,172</u>	<u>100.0</u>	<u>69,335</u>	<u>100.0</u>	<u>72,792</u>	<u>100.0</u>

Our selling and distribution expenses were RMB97.6 million, RMB108.9 million and RMB143.2 million in 2013, 2014 and 2015, respectively, and RMB69.3 million and RMB72.8 million in the six months ended June 30, 2015 and 2016, respectively. Our selling and distribution expenses during the Track Record Period consisted primarily of:

- staff salary, which consisted primarily of salaries and benefits we paid to our employees, contractors and technicians at our local piped gas service centers and pipeline maintenance crew and our sales personnel;
- repair and maintenance, which was labor and material cost in connection with repair and maintenance services we provide to piped gas end users, including repairment of gas appliance and regular safety check at the end users' premises; and
- safety inspection expenses, which consisted primarily expenses incurred in connection of periodical safety inspection of our underground and above-the-ground pipeline network.

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Administrative Expenses

The table below sets forth our administrative expenses for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Salary	231,369	75.5	217,746	72.7	222,744	62.9	105,672	56.4	112,849	78.4
Office expenses	10,837	3.5	9,653	3.2	8,683	2.5	4,913	2.6	4,243	3.0
Depreciation	7,523	2.5	7,317	2.4	7,996	2.3	4,257	2.3	3,927	2.7
Professional fee	9,040	3.0	8,619	2.9	9,978	2.8	1,643	0.9	4,817	3.3
Impairment loss on assets	3,712	1.2	3,722	1.3	59,801	16.9	54,033	28.8	824	0.6
Rental fees	4,864	1.6	11,268	3.8	10,204	2.9	5,164	2.8	4,748	3.3
Others	38,978	12.7	41,121	13.7	34,857	9.7	11,650	6.2	12,559	8.7
Total	306,323	100.0	299,446	100.0	354,263	100.0	187,332	100.0	143,967	100.0

Our administrative expenses were RMB306.3 million, RMB299.4 million and RMB354.3 million in 2013, 2014 and 2015, respectively, and RMB187.3 million and RMB144.0 million in the six months ended June 30, 2015 and 2016, respectively. Our administrative expenses during the Track Record Period consisted primarily of:

- staff salary, which was salaries and benefits we paid to our management and administrative staff;
- office expenses, which were mainly expenses incurred during the ordinary course of administrative operations;
- depreciation, which was depreciation of office assets;
- professional fee, which was fee we paid to third-party professional consultants, including independent auditors and legal advisers;
- impairment loss on assets of RMB59.8 million recognized in 2015, which was impairment loss recognized in connection with the conversion of piped gas delivery infrastructures from coal gas to natural gas in Shanghai;
- rental expenses, which were mainly rental expenses we paid for our office premises; and
- others mainly consist of taxes, travelling, entertainment, meeting, labor protection, vehicle, repair expenses and amortization costs.

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Net Investment Income

The table below sets forth our net investment income for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Net gain/(loss) on disposal of financial assets	55,351	124.6	151,755	93.1	42,256	58.6	10,556	26.0	(8,395)	(7.8)
Change in fair value of financial assets	7	-	407	0.2	(21,784)	(30.2)	4,896	12.1	(12,611)	(11.8)
Impairment loss on available-for-sale financial assets	(40,000)	(90.0)	(9,330)	(5.7)	-	-	-	-	-	-
Dividend income	21,031	47.3	12,722	7.8	44,353	61.5	22,324	54.9	121,846	113.9
Other financial income	8,057	18.1	7,414	4.6	7,256	10.1	2,874	7.0	6,090	5.7
Total	44,446	100.0	162,968	100.0	72,081	100.0	40,650	100.0	106,930	100.0

During the Track Record Period, our net investment income consisted primarily of net gain on disposal of financial assets and dividend income.

Net gain on disposal of financial assets was RMB55.4 million, RMB151.8 million and RMB42.3 million in 2013, 2014 and 2015 respectively. We recorded a net gain on disposal of financial assets of RMB10.6 million in the six months ended June 30, 2015 and a net loss on disposal of financial assets of RMB8.4 million in the six months ended June 30, 2016, respectively. Net gain on disposal of financial assets in 2013 consisted mainly of net gain of RMB42.8 million in connection with the disposal of part of equity interest we held in Industrial Securities as available-for-sales financial assets. Net gain on disposal of financial assets in 2014 consisted mainly of net gain of RMB71.1 million and RMB66.4 million, respectively, in connection with the disposal of part of equity interest we held in Industrial Securities and the disposal of equity interest in Dazhong Insurance as available-for-sale financial assets. Net gain on disposal of financial assets was RMB42.3 million in 2015, which was mainly attributable to the net gain of RMB25.2 million in connection with the disposal of our investment in Shanghai Linyu Properties Co., Ltd. (上海林語置業有限公司). Net gain on disposal of financial assets of RMB10.6 million and net loss on disposal of financial assets of RMB8.4 million in the six months ended June 30, 2015 and 2016, respectively, consisted mainly of our gain or loss in connection with the disposal of stocks and debt securities we held as investment.

Dividend income consisted of dividend distributed to us by our investment held as available-for-sale financial assets and financial assets at fair value through profit or loss, which was RMB21.0 million, RMB12.7 million and RMB44.4 million in 2013, 2014 and 2015,

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respectively, and RMB22.3 million and RMB121.8 million in the six months ended June 30, 2015 and 2016, respectively. Dividend income in the six months ended June 30, 2016 consisted primarily of dividend we received from Chinese Culture Investment in the amount of RMB105.7 million representing 86.7% of total dividend received in the same period.

Impairment loss on available-for-sale financial assets in 2013 was attributable to impairment loss recognized in connection with our investment in Shanghai Autocraft Co., Ltd.* (上海奧達科股份有限公司). We made the investment in 2011 in the amount of RMB60 million, of which approximately RMB49.3 million was not recouped due to the deterioration of the financial position and results of operations of Shanghai Autocraft Co., Ltd.* (上海奧達科股份有限公司) and consequently recognized as impairment loss.

Gain on disposal of a subsidiary

Gain on disposal of a subsidiary in 2013 represented gain of RMB69.1 million we realized in the disposal of Hainan Dazhong Public Utilities Industry Development Co., Ltd.* (海南大眾公用產業發展有限公司), which engaged in real estate investment business. The disposal was a strategic effort to focus our management resources on our core operations. The RMB69.1 million payment was made to us by China Resources Gas as a result of an arbitration between China Resources Gas and Shanghai Dazhong Gas in connection with the sales of the 49% equity interests of Nanchang Gas Co., Ltd.* (南昌燃氣有限公司) by Shanghai Dazhong Gas to China Resources Gas for the consideration of RMB698 million in 2009. For more details, please refer to Note 53 of the accountant's report in Appendix IA to this prospectus.

Gain on partial disposal of equity interests in an associate

Gain on partial disposal of equity interests in an associate in 2015 in the amount of RMB216.4 million represented gain we realized in the disposal of shares in Dazhong Transportation Group to capitalize on the favorable stock prices of Dazhong Transportation Group.

Compensation income/(loss) in connection with disposal of a subsidiary in prior year

In 2013, we recorded a one-time compensation as the result of the first arbitration between China Resources Gas and Shanghai Dazhong Gas in connection with the disposal of Nanchang Gas Co., Ltd.* (南昌燃氣有限公司) in 2009 in the amount of RMB61.4 million.

Compensation in connection with disposal of a subsidiary in prior year of RMB80.0 million recognized in 2015 was the compensation we paid to China Resources Gas as a settlement mutually agreed upon in September 2015 during the second arbitration between China Resources Gas and Shanghai Dazhong Gas in connection with the disposal of Nanchang Gas Co., Ltd.* in 2009. For more details, please refer to Note 53 of the Accountant's Report set out in Appendix IA to this prospectus.

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Finance Costs

The table below sets forth the finance costs we incurred for the indicated periods:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Total finance costs	169,844	171,199	179,962	88,394	85,151
Less: amounts capitalized	<u>(2,017)</u>	<u>(43)</u>	<u>(3,333)</u>	<u>(1,820)</u>	<u>(1,847)</u>
	<u>167,827</u>	<u>171,156</u>	<u>176,629</u>	<u>86,574</u>	<u>83,304</u>

Our finance costs consisted primarily of interest expenses on bank borrowings and the corporate bonds we issued. For more details on our bank borrowings and corporate bonds, please refer to the section “— Indebtedness”. Finance costs incurred on loans borrowed for the purpose of pipeline construction was capitalized, which was RMB2.0 million, RMB43,000 and RMB3.3 million in 2013, 2014 and 2015, respectively, and RMB1.8 million and RMB1.8 million in the six months ended June 30, 2015 and 2016, respectively.

Share of Results of Associates

Associates are entities other than subsidiaries in which we have a long-term interest or certain equity voting rights, and over which we are in a position to exercise significant influence. For more details, please refer to the section “— Critical Accounting Policies and

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Judgements”. The table below sets forth breakdowns of our share of results of associates for the indicated periods:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(Unaudited)</i>									
Dazhong Transportation Group	96,657	40.1	103,814	39.3	122,300	46.4	60,046	36.0	64,095	31.0
Shenzhen Capital Group	116,917	48.4	149,511	56.7	127,373	48.3	104,482	62.7	103,134	49.9
SEISYS	17,774	7.4	5,217	2.0	8,320	3.2	(671)	(0.4)	1,228	0.6
Shanghai Hangxin	(2,063)	(0.9)	(549)	(0.2)	19	0.1	8	<0.1	48,483	23.5
Shanghai Xingye Venture Capital	11,284	4.7	2,091	0.8	7,597	2.9	2,831	1.7	838	0.4
Xuhui Onlly Micro-credit	908	0.4	3,632	1.4	(2,283)	(0.9)	(103)	<0.1	(100)	<0.1
Shanghai Dazhong Chuxing	-	-	-	-	-	-	-	-	(11,073)	(5.4)
Zhejiang Dazhong Equity Investment Management Co., Ltd.* (浙江大眾股權投資管理有限公司)	72	-	-	-	-	-	-	-	-	-
New China Fund Management Co., Ltd.* (新華基金管理有限公司)	(217)	(0.1)	-	-	-	-	-	-	-	-
Total	241,332	100.0	263,716	100.0	263,326	100.0	166,593	100.0	206,605	100.0

Share of results of associates represented our share of the profits after tax of portfolio companies. During the Track Record Period, the substantial majority of share of results of associates was attributable to Dazhong Transportation Group and Shenzhen Capital Group. Share of results from Dazhong Transportation Group accounted for 40.1%, 39.3% and 46.4% of total share of results of associates in 2013, 2014 and 2015, respectively, and 36.0% and 31.0% of total share of results of associates in the six months ended June 30, 2015 and 2016, respectively. Share of results from Shenzhen Capital Group accounted for 48.4%, 56.7% and 48.3% of total share of results of associates in 2013, 2014 and 2015, respectively, and 62.7% and 49.9% of total share of results of associates in the six months ended June 30, 2015 and 2016, respectively. For more details of our investments in Dazhong Transportation Group and Shenzhen Capital Group, please refer to the section headed “Business — Our Public Utility Service Business — Strategic Investment in Dazhong Transportation Group” and “Business — Financial Investments — Our Investment in Shenzhen Capital Group”.

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Profit before tax

As a result of the above, our profit before tax was RMB363.3 million, RMB416.8 million and RMB573.2 million in 2013, 2014 and 2015, respectively, and RMB497.9 million and RMB421.1 million in the six months ended June 30, 2015 and 2016, respectively.

Income Tax

Our income tax expenses were RMB49.9 million, RMB42.5 million and RMB37.4 million in 2013, 2014 and 2015, respectively, representing effective tax rate of 13.7%, 10.2% and 6.5% during the same periods. The decreases in our income tax expenses during the Track Record Period were due to the increasing utilization of tax losses previously not recognized. Our income tax expenses were RMB40.1 million and RMB62.3 million in the six months ended June 30, 2015 and 2016, respectively, representing effective tax rate of 8.0% and 14.8% during the same periods. The effective tax rates were lower than the statutory rate of 25% primarily due to effect of share of results of associates and dividend we received from our strategic and financial investments, which were generally not subject to income tax.

Profits of our subsidiaries established in the PRC are subject to PRC enterprise income tax at 25% during the Track Record Period. Profits of our subsidiaries established in Hong Kong are subject to Hong Kong profit tax at 16.5% during the Track Record Period. Certain of our income generated from wastewater treatment operations were subject to income tax reduction during the Track Record Period.

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The table below sets forth reconciliation of income tax expense with the consolidated profit before income tax expense for the indicated periods:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Profit before income tax expense	363,335	416,763	573,157	497,892	421,090
Tax calculated at the PRC statutory rate of 25%	90,834	104,191	143,289	124,473	105,273
Effect of non-taxable income	(27,899)	(5,009)	(30,574)	(8,249)	(5,073)
Effect of non-deductible expenses	4,506	5,606	2,285	2,940	11,678
Tax effect of share of results of associates	(60,333)	(65,929)	(65,831)	(41,648)	(51,651)
Utilization of tax losses previously not recognized	(974)	(6,063)	(26,478)	(54,180)	(9,733)
Tax effect of tax losses not recognized	32,840	9,056	2,039	1,448	9,775
Tax effect on changes on fair value of financial assets, impairment loss on assets and timing difference on employee benefits	12,845	2,559	12,852	16,093	2,675
Effect of tax exemptions granted to subsidiaries	(4,588)	(1,727)	(1,785)	(935)	(770)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	(490)	–	(721)	–
Under-provision in respect of prior years	2,667	314	1,635	856	124
Income tax expense	<u>49,898</u>	<u>42,508</u>	<u>37,432</u>	<u>40,077</u>	<u>62,298</u>

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According to the PRC law on Enterprises Income Tax Chapter 27 items 2 and 3, a number of our PRC subsidiaries which engaged in wastewater treatment operations, were qualified and approved to enjoy the tax preferential policy of “Three-year exemption and three-year 50% reduction” or of “Two-year exemption and three-year 50% reduction” during the Track Record Period, as shown below:

- Shanghai Dazhong Jiading Sewage was approved by the Shanghai Jiading District National Tax Authority to be fully exempted from enterprise income tax for the years from 2008 to 2010 and 50% reduction for the years from 2011 to 2013;
- Xuzhou Fountainhead Sewage was approved by the Xuzhou Jiawang District National Tax Authority to be fully exempted from enterprise income tax for the years from 2009 to 2010 and 50% reduction for the years from 2011 to 2013;
- Lianyungang West Lake Sewage was approved by the Jiangsu Provincial Donghai County National Tax Authority to be fully exempted from enterprise income tax for the years from 2008 to 2010 and 50% reduction for the years from 2011 to 2013; and
- Xuzhou Water Operation was approved by the Jiangsu Provincial Xuzhou National Tax Authority to be fully exempted from enterprise income tax for the years from 2011 to 2013 and 50% reduction for the years from 2014 to 2016.

Net Profit

Our net profit was RMB313.4 million, RMB374.3 million and RMB535.7 million in 2013, 2014 and 2015, respectively, and RMB457.8 million and RMB358.8 million in the six months ended June 30, 2015 and 2016, respectively.

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Other Comprehensive Income

Our other comprehensive income consisted primarily of share of other comprehensive income of associates and change in fair value of available-for-sale financial assets.

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Other comprehensive income, net of tax:					
Share of other comprehensive income of associates	(29,244)	123,573	952,240	597,036	(18,483)
Change in fair value of available-for-sale financial assets	(96,883)	120,661	43,618	117,886	(62,337)
Recycle of changes in fair value of available-for-sale financial assets to profit or loss	40,000	9,330	–	–	–
Exchange differences on translating foreign operations	(1,040)	166	6,816	(125)	(2,260)
Re-measurement gains/(losses) on defined benefit obligations	4,178	(4,100)	(4,802)	(642)	3,026
Other comprehensive income for the year/period, net of tax	<u>(82,989)</u>	<u>249,630</u>	<u>997,872</u>	<u>714,155</u>	<u>(80,054)</u>

Share of other comprehensive income of associates

Share of other comprehensive income of associates represents the difference in the aggregate fair value of the publicly listed portfolio companies invested by our associated companies between the first and the last date of any given period. During the Track Record Period our share of other comprehensive income of associates was mainly attributable to our investments in Dazhong Transportation Group and Shenzhen Capital Group. Both Dazhong Transportation Group and Shenzhen Capital Group held a portfolio of publicly listed companies.

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The fair values of such portfolio companies were affected by the stock market condition, which in turn affected our share of other comprehensive income from Dazhong Transportation Group and Shenzhen Capital Group, respectively. We recorded a decrease of RMB29.2 million in 2013 and recorded increases of RMB123.6 million and RMB952.2 million in 2014 and 2015, respectively, in terms of share of other comprehensive income of associates. We recorded an increase of RMB597.0 million in the six months ended June 30, 2015 and a decrease of RMB18.5 million in the six months ended June 30, 2016, respectively, in terms of share of other comprehensive income of associates.

Change in fair value of available-for-sale financial assets

Our available-for-sale financial assets consisted of investments in publicly listed and private companies in the PRC. Change in fair value of available-for-sale financial assets was resulted from the difference in the stock price of the publicly listed companies in which we invested between the first and the last date of any given period. We recorded a decrease of RMB96.9 million in 2013 and recorded increases of RMB120.7 million and RMB43.6 million in 2014 and 2015 respectively, in terms of change in fair value of available-for-sale financial assets. We recorded an increase of RMB117.9 million in the six months ended June 30, 2015 and a decrease of RMB62.3 million in the six months ended June 30, 2016. Such fluctuations were resulted from changes in fair values of publicly listed companies in which we invested. The fair values were in turn affected by the stock market condition.

Total Comprehensive Income

Our total comprehensive income was RMB230.4 million, RMB623.9 million and RMB1,533.6 million in 2013, 2014 and 2015, respectively, and RMB1,172.0 million and RMB278.7 million in the six months ended June 30, 2015 and 2016, respectively.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2016 Compared with Six Months Ended June 30, 2015

Revenue

Revenue decreased by 2.4% from RMB2,605.3 million in the six months ended June 30, 2015 to RMB2,544.0 million in the six months ended June 30, 2016. The decrease was primarily due to revenue decrease in pipeline construction operations, which was in turn a result of a decrease in the number of construction projects completed in the six months ended June 30, 2016. Revenue contribution from the four segments remained relatively stable in the same periods.

Piped gas supply

Revenue generated from piped gas supply operations decreased by 4.0% from RMB2,478.5 million in the six months ended June 30, 2015 to RMB2,379.0 million in the six months ended June 30, 2016. The decrease was primarily attributable to decrease of revenue generated from pipeline construction. Revenue generated from piped gas supply operations was 95.1% and 93.5% of our total revenue in the six months ended June 30, 2015 and 2016, respectively.

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Revenue generated from sales of piped gas slightly decreased by 1.3% from RMB2,030.9 million in the six months ended June 30, 2015 to RMB2,004.9 million in the six months ended June 30, 2016, which was primarily due to the decreases in average retail price of piped gas for non-residential end uses in Shanghai and Nantong Area.

Revenue generated from pipeline construction decreased by 28.9% from RMB273.1 million in the six months ended June 30, 2015 to RMB194.3 million in the six months ended June 30, 2016. In the six months ended June 30, 2015, we recorded a relatively higher revenue from pipeline construction as we completed a number of construction projects for non-residential end users and the relevant construction fees were recognized as revenue in full.

Revenue from gas connection increased by 5.2% from RMB103.0 million in the six months ended June 30, 2015 to RMB108.3 million in the six months ended June 30, 2016. The increase was primarily due to the increase in the number of new residential and non-residential end users in Nantong Area.

Revenue generated from sales of related products remained stable at RMB71.6 million and RMB71.5 million in the six months ended June 30, 2015 and 2016, respectively.

Wastewater treatment

Revenue generated from wastewater treatment operations increased by 13.4% from RMB83.0 million in the six months ended June 30, 2015 to RMB94.1 million in the six months ended June 30, 2016. The increase was primarily due to the revenue generated from the test operation and operation of Phase III of the Jiading plant during the period from August 2015 to June 2016. Revenue generated from wastewater treatment operations was 3.2% and 3.7% of our total revenue in the six months ended June 30, 2015 and 2016, respectively.

Public infrastructure projects

Revenue generated from public infrastructure projects remained stable at RMB29.9 million and RMB28.7 million in the six months ended June 30, 2015 and 2016, respectively. Revenue generated from public infrastructure projects was 1.2% and 1.1% of our total revenue in the six months ended June 30, 2015 and 2016, respectively.

Financial services

Revenue from interest income in our micro-credit business decreased by 15.1% from RMB12.8 million in the six months ended June 30, 2015 to RMB10.9 million in the six months ended June 30, 2016, primarily due to management's decision to decrease the loan amount. Revenue from financial leasing business was RMB1.0 million and RMB31.3 million in the six months ended June 30, 2015 and 2016, respectively.

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Cost of sales

Cost of sales slightly increased by 1.0% from RMB2,128.3 million in the six months ended June 30, 2015 to RMB2,149.4 million in the six months ended June 30, 2016, primarily due to the increases in cost of piped gas supply and wastewater treatment operations.

Piped gas supply

Cost of sales from piped gas supply operations slightly increased by 0.5% from RMB2,092.9 million in the six months ended June 30, 2015 to RMB2,102.5 million in the six months ended June 30, 2016 due to the increase in procurement volume of piped gas in Shanghai. Cost of sales from piped gas supply operations accounted for 98.3% and 97.8% of our total cost of sales in the six months ended June 30, 2015 and 2016, respectively.

Wastewater treatment

Cost of sales from wastewater operations increased by 37.8% from RMB29.1 million in the six months ended June 30, 2015 to RMB40.2 million in the six months ended June 30, 2016. The increase was primarily due to the cost incurred in connection with the test operation and operation of Phase III of the Jiading plant between August 2015 and June 2016. Cost of sales from wastewater treatment operations accounted for 1.4% and 1.9% of our total cost of sales in the six months ended June 30, 2015 and 2016, respectively.

Public infrastructure projects

Cost of sales from public infrastructure projects increased 11.0% from RMB5.6 million in the six months ended June 30, 2015 to RMB6.3 million for the six months ended June 30, 2016. The increase was primarily due to the increase in operational cost of Xiangyin Road tunnel. Cost of sales from public infrastructure projects accounted for 0.3% of our total cost of sales in the six months ended June 30, 2015 and 2016.

Gross profit and gross profit margin

Our gross profit decreased by 17.3% from RMB477.1 million in the six months ended June 30, 2015 to RMB394.7 million in the six months ended June 30, 2016, primarily due to the decrease in gross profit in piped gas supply operations. Gross profit of piped gas supply operations decreased by 28.3% from RMB385.7 million in the six months ended June 30, 2015 to RMB276.5 million in the six months ended June 30, 2016. Gross profit margin for piped gas supply also decreased from 15.6% in the six months ended June 30, 2015 to 11.6% in the six months ended June 30, 2016. The decreases in gross profit and gross profit margin of piped gas supply operations during the periods were primarily due to the decreases in piped gas retail price for non-residential end users in Shanghai and Nantong Area.

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Other income and gains

Other income and gains decreased by 36.7% from RMB20.5 million in the six months ended June 30, 2015 to RMB13.0 million in the six months ended June 30, 2016, primarily attributable to net loss of RMB7.2 million in connection with the disposal of property, plant and equipment.

Selling and distribution expenses

Selling and distribution expenses increased by 5.0% from RMB69.3 million in the six months ended June 30, 2015 to RMB72.8 million in the six months ended June 30, 2016. The increase was primarily due to the increase of staff cost as a result of increase of salaries and other benefit we paid to our staff.

Administrative expenses

Administrative expenses decreased by 23.1% from RMB187.3 million in the six months ended June 30, 2015 to RMB144.0 million in the six months ended June 30, 2016. The decrease was primarily due to the impairment loss of RMB54.0 million recognized in the six months ended June 30, 2015 in connection with the conversion of piped gas delivery infrastructures from coal gas to natural gas in Shanghai.

Gain on partial disposal of equity interests in an associate

In the six months ended June 30, 2015, we recognized gain on partial disposal of equity interests in an associate of RMB216.4 million in connection with the disposal of shares in Dazhong Transportation Group to capitalize on the favorable stock prices of Dazhong Transportation Group.

Net investment income

Net investment income increased by 163.1% from RMB40.7 million in the six months ended June 30, 2015 to RMB106.9 million in the six months ended June 30, 2016. The increase was primarily attributable to the dividend from Chinese Culture Investment in the amount of RMB105.7 million.

Finance costs

Our total finance costs decreased by 3.8% from RMB86.6 million in the six months ended June 30, 2015 to RMB83.3 million in the six months ended June 30, 2016, primarily due to the decrease in average bank interest rate. Finance costs in the amount of RMB1.8 million incurred on loans borrowed for the construction of phase III of Jiading wastewater treatment plant in the six months ended June 30, 2016 was capitalized.

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Share of results of associates

Share of results of associates increased by 24.0% from RMB166.6 million in the six months ended June 30, 2015 to RMB206.6 million in the six months ended June 30, 2016, primarily due to an increase of RMB48.5 million in share of results of Shanghai Hangxin as a result of its disposal of shares in a listed company in the six months ended June 30, 2016.

Profit before tax

As a result of above, profit before tax decreased from RMB497.9 million in the six months ended June 30, 2015 to RMB421.1 million in the six months ended June 30, 2016.

Income tax

Income tax was RMB40.1 million and RMB62.3 million in the six months ended June 30, 2015 and 2016, representing effective tax rate of 8.0% and 14.8% during the same periods. The increase in income tax expenses in the six months ended June 30, 2016 was primarily due to utilization of tax losses of RMB216.7 million not recognized in prior years in the six months ended June 30, 2015.

Net profit

As a result of above, net profit decreased by 21.6% from RMB457.8 million in the six months ended June 30, 2015 to RMB358.8 million in the six months ended June 30, 2016.

Other comprehensive income

We recorded an increase of RMB597.0 million and a decrease of RMB18.5 million in terms of share of other comprehensive income of associates in the six months ended June 30, 2015 and 2016, respectively. The increase and decrease were primarily due to the increase in the aggregate fair value of listed portfolio companies invested by our associated companies as of June 30, 2015 as compared to December 31, 2014, and the decrease in the aggregate fair value of publicly listed portfolio companies invested by our associated companies as of June 30, 2016 as compared to December 31, 2015. In particular, the decrease in the six months ended June 30, 2016 was partially resulted from Shenzhen Capital Group's disposal of equity interest in a number of its portfolio companies in response to the market condition.

We recorded an increase of RMB117.9 million and a decrease of RMB62.3 million in change in fair value of available-for-sale financial assets in the six months ended June 30, 2015 and 2016, respectively. The increase and decrease were primarily due to the increase in stock prices of listed portfolio companies we invested which was recorded as our available-for-sale

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financial assets as of June 30, 2015 as compared to December 31, 2014 and the decrease in stock prices of publicly listed portfolio companies we invested as of June 30, 2016 as compared to December 31, 2015, respectively.

Total comprehensive income

As a result, our total comprehensive income decreased significantly from RMB1,172.0 million in the six months ended June 30, 2015 to RMB278.7 million in the six months ended June 30, 2016.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

Revenue

Revenue increased by 9.6% from RMB4,212.6 million in 2014 to RMB4,616.6 million in 2015, primarily due to revenue increase from piped gas supply. Revenue contribution from the four segments remained relatively stable in 2014 and 2015.

Piped gas supply

Revenue generated from piped gas supply operations increased by 10.1% from RMB3,960.6 million in 2014 to RMB4,359.7 million in 2015. The increase was primarily attributable to increases of revenue generated from sales of piped gas and pipeline construction.

Sales of piped gas increased by 8.7% from RMB3,345.8 million in 2014 to RMB3,638.4 million in 2015. The increase was primarily due to the increase in revenue generated from sales of piped gas due to (i) increase in the number of end user accounts; (ii) the increase in average retail price for non-residential end users in Shanghai; and (iii) the implementation of volume-based tiered retail price for residential end users in September 2014 by the Shanghai DRC. Revenue generated from piped gas supply operations was 94.0% and 94.4% of our total revenue in 2014 and 2015, respectively.

Revenue from pipeline construction increased by 34.4% from RMB293.3 million in 2014 to RMB394.2 million in 2015. The increase was primarily due to the completion of a number of construction projects for which revenue were recognized in full in 2015.

Revenue from gas connection remained relatively stable at RMB204.0 million and RMB207.3 million in 2014 and 2015, respectively.

Sales of related products remained relatively stable at RMB117.6 million and RMB119.7 million in 2014 and 2015, respectively.

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Wastewater treatment

Revenue generated from wastewater treatment operations decreased by 10.9% from RMB166.4 million in 2014 to RMB148.3 million in 2015. The decrease was primarily attributable to 12.4% decrease of operational income from RMB128.2 million in 2014 to RMB112.3 million in 2015 as a portion of wastewater was directed to phase III of the Jiading plant for test purpose and no revenue was recognized in connection with the treatment of such portion in 2015. Revenue generated from wastewater treatment operations was 4.0% and 3.2% of our total revenue in 2014 and 2015, respectively.

Public infrastructure projects

Revenue generated from public infrastructure projects decreased by 8.2% from RMB63.3 million in 2014 to RMB58.1 million in 2015. The decrease was primarily due to the decrease of financial income which was in turn due to the decrease in non-current trade receivables as we recoup our initial investment under BT arrangements. Revenue generated from public infrastructure projects was 1.5% and 1.3% of our total revenue in 2014 and 2015, respectively.

Financial services

Revenue from interest income in our micro-credit business increased by 30.1% from RMB22.3 million in 2014 to RMB29.0 million in 2015, primarily due to the increase in the loan amount in 2015.

Revenue from financial leasing business was nil and RMB21.5 million in 2014 and 2015, respectively because financial leasing business was newly set up in September 2014.

Cost of sales

Cost of sales increased by 5.3% from RMB3,691.8 million in 2014 to RMB3,887.0 million in 2015, primarily due to the increase in cost of piped gas supply operations. Cost contribution percentages from the four segments remained relatively stable in 2014 and 2015.

Piped gas supply

Cost of sales from piped gas supply operations increased by 5.3% from RMB3,622.6 million in 2014 to RMB3,813.4 million in 2015. The increase was primarily due to increase in procurement cost for piped gas. Procurement cost of piped gas increased by 2.0% from RMB2,771.1 million in 2014 to RMB2,826.2 million in 2015, primarily due to the increase in the average procurement price in Shanghai Area. Cost of sales from piped gas supply operations accounted for 98.1% and 98.1% of our total cost of sales in 2014 and 2015, respectively.

Wastewater treatment

Cost of sales from wastewater operations increased by 6.3% from RMB57.1 million in 2014 to RMB60.7 million in 2015. The increase was primarily due to increase in staff cost and electricity cost. Cost of sales from wastewater treatment operations accounted for 1.5% and 1.6% of our total cost of sales in 2014 and 2015, respectively.

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Public infrastructure projects

Cost of sales from public infrastructure projects remained relatively stable at RMB11.0 million and RMB11.3 million in 2014 and 2015, respectively. Cost of sales from public infrastructure projects was 0.3% and 0.3% of our total cost of sales in 2014 and 2015, respectively.

Gross profit and gross profit margin

Our gross profit increased by 40.1% from RMB520.8 million in 2014 to RMB729.6 million in 2015, primarily due to the increase in gross profit and gross profit margin of piped gas supply operations. Gross profit of piped gas supply operations increased by 61.6% from RMB338.0 million in 2014 to RMB546.3 million in 2015. Segment gross profit margin also increased from 8.5% in 2014 to 12.5% in 2015. These increases in gross profit and gross profit margin during the periods were primarily results of (i) the implementation of the tiered natural gas retail prices for residential end users in Shanghai in September 2014 and (ii) the increase in natural gas retail prices for non-residential end users.

Other income and gains

Other income and gains decreased by 6.1% from RMB48.8 million in 2014 to RMB45.8 million in 2015, primarily attributable to a change from a gain of RMB2.7 million to a loss of RMB9.1 million in connection with the disposal of property, plant and equipment, partially offset by an increase in bank interest income from RMB12.4 million in 2014 to RMB17.3 million in 2015 primarily due to increase in our cash in bank.

Selling and distribution expenses

Selling and distribution expenses increased by 31.5% from RMB108.9 million in 2014 to RMB143.2 million in 2015. The increase was primarily due to adjustment made to compensation paid to meter readers for piped gas supply and the increase in number of employees for our financial leasing business. Safety inspection expenses increased by 11.1% from RMB12.8 million in 2014 to RMB14.3 million in 2015, primarily due to our decision to enhance our safety measures by increasing our inspection frequency and repair and maintenance.

Administrative expenses

Administrative expenses increased by 18.3% from RMB299.4 million in 2014 to RMB354.3 million in 2015. The increase was primarily attributable to an increase in staff cost as a result of the increase of salaries and other benefit we paid to our staff.

Net investment income

Net investment income decreased by 55.8% from RMB163.0 million in 2014 to RMB72.1 million in 2015. The decrease was primarily attributable to the change in net gain or loss on disposal of financial assets, which changed from a net gain of RMB151.8 million in 2014 to a net

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gain of RMB42.3 million in 2015. The change was primarily due to the net gain in connection with (i) the disposal of part of equity interest we held in Industrial Securities with an amount of RMB71.1 million and (ii) the disposal of equity interest in Dazhong Insurance with an amount of RMB66.4 million, respectively in 2014 as available-for-sale financial assets. Such decrease was partially offset by an increase in dividend income from RMB12.7 million in 2014 to RMB44.4 million in 2015.

Finance costs

Our total finance costs increased by 3.2% from RMB171.2 million in 2014 to RMB176.6 million in 2015, primarily due to an increase in the outstanding amount of our bank borrowings. Finance costs in the amount of RMB3.3 million incurred for the construction of expansion of the Phase III of the Jiading plant in 2015 were capitalized.

Share of results of associates

Share of results of associates remained relatively stable, and were RMB263.7 million and RMB263.3 million in 2014 and 2015, respectively. We recorded an increase of RMB18.5 million in share of results of Dazhong Transportation Group due to an increase in its gains from disposal of subsidiaries and available-for-sale financial assets, which was partially offset by a decrease of RMB22.7 million in share of results of Shenzhen Capital Group due to a decrease in its gains from disposal of available-for-sale financial assets.

Profit before tax

As a result of above, profit before tax increased by 37.5% from RMB416.8 million in 2014 to RMB573.2 million in 2015.

Income tax

Income tax was RMB42.5 million and RMB37.4 million in 2014 and 2015, representing effective tax rate of 10.2% and 6.5% during the same periods. The decrease in income tax in 2015 was primarily due to utilization of tax losses of RMB105.9 million not recognized in prior years, partially offset by income tax expenses in relation to the gain realized in the disposal of shares in Dazhong Transportation Group.

Net profit

As a result of above, net profit increased by 43.1% from RMB374.3 million in 2014 to RMB535.7 million in 2015.

Other comprehensive income

We recorded increases of RMB123.6 million and RMB952.2 million in 2014 and 2015 in terms of share of other comprehensive income of associates. The positive change in 2015 was primarily due to the increase in stock prices of listed portfolio companies invested by our associated companies as of December 31, 2015 as compared to December 31, 2014 due to the favorable stock market condition in 2015.

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We recorded increases of RMB120.7 million and RMB43.6 million in change in fair value of available-for-sale financial assets in 2014 and 2015, respectively. The increases were primarily due to the increase in stock prices of listed portfolio companies we invested as of December 31, 2014 as compared to December 31, 2013 and the increase in stock prices of public listed portfolio companies we invested as of December 31, 2015 as compared to December 31, 2014, respectively.

Total comprehensive income

As a result, our total comprehensive income increased significantly from RMB623.9 million in 2014 to RMB1,533.6 million in 2015.

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Revenue

Revenue increased by 7.2% from RMB3,929.8 million in 2013 to RMB4,212.6 million in 2014, primarily due to revenue increase from piped gas supply. Revenue contribution from the four segments remained relatively stable in 2013 and 2014.

Piped gas supply

Revenue generated from piped gas supply operations increased by 7.2% from RMB3,695.2 million in 2013 to RMB3,960.6 million in 2014. The increase was primarily attributable to the 7.2% increase of sales of piped gas from RMB3,119.8 million in 2013 to RMB3,345.8 million in 2014. The increase of sales of piped gas was primarily due to (i) the increases of the number of residential and non-residential end users accounts; and (ii) the increase in piped gas retail prices for both residential and non-residential end users and the implementation of the tiered price structure for residential end users. The increase was also attributable to a 18.8% increase of revenue from pipeline construction from RMB246.9 million in 2013 to RMB293.3 million in 2014, which was mainly attributable to pipeline construction projects for new non-residential end users. Revenue generated from piped gas supply operations accounted for 94.0% and 94.0% of our total revenue in 2013 and 2014, respectively.

Wastewater treatment

Revenue generated from wastewater treatment operations decreased slightly from RMB167.3 million in 2013 to RMB166.4 million in 2014. The decrease was primarily due to the decrease of financial income from Xiaoshan wastewater treatment plant which was in turn consistent with the decrease of outstanding initial investment amount. Revenue generated from wastewater treatment operations was 4.3% and 4.0% of our total revenue in 2013 and 2014, respectively.

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Public infrastructure projects

Revenue generated from public infrastructure projects decreased by 5.9% from RMB67.3 million in 2013 to RMB63.3 million in 2014. The decrease was primarily due to the decrease of financial income which was in turn consistent with the decrease of outstanding initial investment amounts as we recoup our initial investment under BT arrangements. Revenue generated from public infrastructure projects accounted for 1.7% and 1.5% of our total revenue in 2013 and 2014, respectively.

Financial services

We started our micro-credit business in November 2013 and did not generate any revenue in 2013. We generated RMB22.3 million interest income from micro-credit business in 2014, representing 0.5% of the total revenue of 2014.

Cost of sales

Cost of sales increased by 6.7% from RMB3,461.1 million in 2013 to RMB3,691.8 million in 2014, primarily due to cost of piped gas supply operations. Cost contribution percentages from the four segments remained relatively stable in 2013 and 2014.

Piped gas supply

Cost of sales from piped gas supply operations increased by 6.8% from RMB3,390.5 million in the 2013 to RMB3,622.6 million in 2014. The increase was primarily due to increase of procurement cost for piped gas. Procurement cost of piped gas increased by 6.3% from RMB2,608.0 million in 2013 to RMB2,771.1 million in 2014, primarily due to increase in the average procurement price in Shanghai Area. Cost of sales from piped gas supply operations accounted for 98.0% and 98.1% of our total cost of sales in 2013 and 2014, respectively.

Wastewater treatment

Cost of sales from wastewater treatment operations decreased by 4.5% from RMB59.8 million in 2013 to RMB57.1 million in 2014. Cost of sales from wastewater treatment operations accounted for 1.7% and 1.5% of our total cost of sales in 2013 and 2014, respectively.

Public infrastructure projects

Cost of sales from public infrastructure projects remained relatively stable at RMB10.8 million in 2013 and RMB11.0 million in 2014. Cost of sales from public infrastructure projects accounted for 0.3% and 0.3% of our total cost of sales in 2013 and 2014, respectively.

Gross profit and gross profit margin

Our gross profit increased by 11.1% from RMB468.8 million in 2013 to RMB520.8 million in 2014, primarily due to the increase in gross profit and gross profit margin of piped gas supply operations. Gross profit of piped gas supply operations increased by 10.9% from RMB304.7

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million in 2013 to RMB338.0 million in 2014 and gross profit margin increased from 8.2% in 2013 to 8.5% in 2014. The increases in gross profit and gross profit margin during the periods were primarily results of the increase in the average retail prices for piped gas for non-residential end users in Shanghai Area.

Other income and gains

Other income and gains remained relatively stable at RMB50.0 million in 2013 and RMB48.8 million in the 2014.

Government grants in 2014 consisted primarily of (i) RMB7.2 million of subsidy granted by Nantong government for our piped gas supply business in Nantong Area; and (ii) RMB2.0 million of subsidy granted to Shanghai Dazhong Gas by Huangpu District government in connection with our piped gas supply services. Government grant in 2013 consisted primarily of (i) RMB5.0 million subsidy from Pudong District government for Dazhong Capital pursuant to relevant regulations that grant subsidy to newly registered enterprises; (ii) RMB4.5 million subsidy granted by Nantong government for our piped gas supply business in Nantong Area; (iii) RMB4.0 million of subsidy granted to Shanghai Dazhong Gas by Huangpu District government in connection with our piped gas supply services; and (iv) RMB2.7 million compensation for Jiading wastewater treatment plant.

Selling and distribution expenses

Selling and distribution expenses increased by 11.6% from RMB97.6 million in 2013 to RMB108.9 million in 2014. The increase was primarily due to (i) a 60.1% increase in repair and maintenance expenses from RMB5.8 million in 2013 to RMB9.3 million in 2014 and (ii) a 79.5% increase in safety inspection expenses from RMB7.2 million in 2013 to RMB12.8 million in 2014, primarily due to increased number of households inspected and expenses per inspection.

Administrative expenses

Administrative expenses decreased by 2.3% from RMB306.3 million in 2013 to RMB299.4 million in 2014. The slight decrease was primarily due to the decrease in the amount of salaries and benefits we paid to our management and administrative staff as a result of our cost saving efforts in 2014.

Net investment income

Net investment income increased significantly from RMB44.4 million in 2013 to RMB163.0 million in 2014. The increase was primarily attributable to the significant increase in net gain on disposal of financial assets from RMB55.4 million in 2013 to RMB151.8 million in 2014, primarily due to the disposal of (i) shares we held in Industrial Securities in 2014 for the total gain of RMB71.0 million; (ii) shares in Dazhong Insurance in a privately negotiated transaction for the total gain of RMB66.4 million; and (iii) equity interest in Shanghai No. 1 Finance and Economics

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Media Co., Ltd.* (上海第一財經傳媒有限公司) by Shanghai Dazhong Capital Equity Investment for the total gain of RMB5.2 million. The increase in net investment income was also due to the decrease of impairment loss on available-for-sale financial assets attributable to investment in Shanghai Autocraft Co., Ltd.* (上海奧達科股份有限公司) from RMB40.0 million in 2013 to RMB9.3 million in 2014.

Finance costs

Finance costs increased by 2.0% from RMB167.8 million in 2013 to RMB171.2 million in 2014, primarily due to the increase in our bank borrowings.

Share of results of associates

Share of results of associates increased by 9.3% from RMB241.3 million in 2013 to RMB263.7 million in 2014, primarily due to a 27.9% increase in share of results of Shenzhen Capital Group from RMB116.9 million in 2013 to RMB149.5 million in 2014 as a result of the strong financial performance of Shenzhen Capital Group in 2014, which in turn was due to an increase in its gains from disposal of available-for-sale financial assets.

Profit before tax

As a result of above, profit before tax increased by 14.7% from RMB363.3 million in 2013 to RMB416.8 million in 2014.

Income tax

Income tax was RMB49.9 million and RMB42.5 million in 2013 and 2014, representing effective tax rate of 13.7% and 10.2% during the same periods.

Net profit

As a result of above, net profit increased by 19.4% from RMB313.4 million in 2013 to RMB374.3 million in 2014.

Other comprehensive income

We recorded a decrease of RMB29.2 million in 2013 and recorded an increase of RMB123.6 million in 2014 in terms of share of other comprehensive income of associates. The positive change in 2014 was primarily due to the increase in fair value of listed portfolio companies invested by our associated companies as of December 31, 2014 as compared to December 31, 2013. The increase in 2014 was primarily attributable to RMB126.5 million increase recognized in connection with investment by Dazhong Transportation Group. The decrease in 2013 was primarily attributable to RMB42.9 million decrease in connection with

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investment by Dazhong Transportation Group and RMB11.7 million decrease in connection with investment by Shanghai Xingye Venture Capital, partially offset by RMB25.6 million increase in connection with investment by Shenzhen Capital Group.

We recorded a decrease of RMB96.9 million in 2013 and recorded an increase of RMB120.7 million in 2014 in terms of change in fair value of available-for-sale financial assets. The positive change in 2014 was primarily due to the increase in stock prices of publicly listed portfolio companies we invested as of December 31, 2014 as compared to December 31, 2013.

Total Comprehensive income

As a result of above, our total comprehensive income increased significantly from RMB230.4 million in 2013 to RMB623.9 million in 2014.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
				<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	3,782,065	4,246,044	4,390,369	4,348,017
Investment properties	71,545	69,346	67,147	66,048
Payments for leasehold land held for own use under operating leases	56,710	83,085	80,835	70,435
Goodwill	–	–	–	1,312
Intangible assets	184,412	181,968	183,542	390,412
Investments in associates	2,699,039	2,997,521	4,082,210	4,670,115
Amount due from an associate	60,335	60,335	–	–
Available-for-sale financial assets	765,227	786,372	833,729	882,652
Trade and bills receivables	643,683	593,349	544,600	519,784
Lease receivables	–	–	340,144	411,411
Amount due from grantor	719,551	686,306	653,216	635,792
Long-term prepayment	7,564	7,386	3,000	14,410
Deferred tax assets	5,173	5,902	19,618	22,064
Total non-current assets	8,995,304	9,717,614	11,198,410	12,032,452

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	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets				
Inventories	28,655	30,927	22,343	32,668
Amount due from an associate	–	–	60,335	60,335
Trade and bills receivables	329,305	294,198	329,474	299,252
Lease receivables	–	–	412,785	485,504
Loan receivables	9,900	183,879	200,811	202,709
Prepayments and other receivables	48,044	32,361	178,933	159,673
Amount due from grantor	31,570	33,244	33,090	33,969
Financial assets at fair value through profit or loss	181	47,155	106,333	64,373
Available-for-sale financial assets	30,000	28,000	85,000	60,000
Pledged deposits	4,619	35,302	3,397	158,000
Cash and cash equivalents	959,450	1,530,079	1,549,655	1,946,288
Total current assets	1,441,724	2,215,145	2,982,156	3,502,771
Current liabilities				
Borrowings	648,495	864,026	1,497,709	2,335,606
Trade and bills payables	956,465	1,377,159	1,111,455	1,475,674
Other payables	677,061	655,071	734,666	697,103
Deferred income	188,700	195,224	203,076	209,969
Amounts due to customers for contract work	361,980	469,173	436,613	454,011
Employee defined benefits	2,295	2,261	2,198	2,198
Current tax liabilities	21,158	22,733	22,522	60,788
Total current liabilities	2,856,154	3,585,647	4,008,239	5,235,349
Net current liabilities	(1,414,430)	(1,370,502)	(1,026,083)	(1,732,578)
Total assets less current liabilities	7,580,874	8,347,112	10,172,327	10,299,874
Non-current liabilities				
Borrowings	187,050	260,026	438,710	385,432
Corporate bonds payable	1,582,360	1,586,208	1,590,465	1,592,680
Other payables	38,374	38,102	105,995	159,382
Deferred income	954,399	999,755	1,078,406	1,123,478
Employee defined benefits	31,508	35,280	39,819	36,627
Provision for restoration	14,569	17,152	19,486	21,498
Deferred tax liabilities	57,582	103,121	120,260	99,520
Total non-current liabilities	2,865,842	3,039,644	3,393,141	3,418,617
Net assets	4,715,032	5,307,468	6,779,186	6,881,257

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NET CURRENT LIABILITIES

The table below sets forth our current assets and current liabilities as of the indicated dates:

	As of December 31,			As of June 30,	As of September 30,
	2013	2014	2015	2016	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Current assets					
Inventories	28,655	30,927	22,343	32,668	25,913
Amount due from an associate	–	–	60,335	60,335	60,335
Trade and bills receivables	329,305	294,198	329,474	299,252	301,811
Lease receivables	–	–	412,785	485,504	534,405
Loan receivables	9,900	183,879	200,811	202,709	214,193
Prepayments and other receivables	48,044	32,361	178,933	159,673	126,496
Amount due from grantor	31,570	33,244	33,090	33,969	34,408
Financial assets at fair value through profit or loss	181	47,155	106,333	64,373	70,730
Available-for-sale financial assets	30,000	28,000	85,000	60,000	184,017
Pledged deposits	4,619	35,302	3,397	158,000	158,000
Cash and cash equivalents	959,450	1,530,079	1,549,655	1,946,288	2,283,876
Total current assets	1,441,724	2,215,145	2,982,156	3,502,771	3,994,184
Current liabilities					
Borrowings	648,495	864,026	1,497,709	2,335,606	2,242,731
Short-term bonds payable	–	–	–	–	300,169
Trade and bills payables	956,465	1,377,159	1,111,455	1,475,674	1,563,863
Other payables	677,061	655,071	734,666	697,103	741,934
Deferred income	188,700	195,224	203,076	209,969	209,950
Amounts due to customers for contract work	361,980	469,173	436,613	454,011	536,743
Employee defined benefits	2,295	2,261	2,198	2,198	2,161
Current tax liabilities	21,158	22,733	22,522	60,788	54,719
Total current liabilities	2,856,154	3,585,647	4,008,239	5,235,349	5,652,270
Net current liabilities	(1,414,430)	(1,370,502)	(1,026,083)	(1,732,578)	(1,658,086)

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We recorded net current liabilities of RMB1,414.4 million, RMB1,370.5 million, RMB1,026.1 million and RMB1,732.6 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. As of September 30, 2016, we had net current liabilities of RMB1,658.1 million. Our net current liabilities were mainly attributable to (i) our short-term bank borrowings for our capital expenditure needs, and (ii) our short-term trade and bills payables.

Net current liability decreased from RMB1,732.6 million as of June 30, 2016 to RMB1,658.1 million as of September 30, 2016, primarily due to the increase in cash and cash equivalents.

Net current liability increased from RMB1,026.1 million as of December 31, 2015 to RMB1,732.6 million as of June 30, 2016 primarily due to (i) an increase of borrowings from RMB1,497.7 million as of December 31, 2015 to RMB2,335.6 million as of June 30, 2016, which in turn was attributable to our acquisition of shares in Suchuang Gas and Dazhong Transportation Group; and (ii) an increase in trade and bills payables from RMB1,111.5 million as of December 31, 2015 to RMB1,475.6 million as of June 30, 2016, which in turn was attributable to the timing of payment to Shanghai Gas Group, partially offset by (i) an increase in cash and cash equivalents from RMB1,549.7 million as of December 31, 2015 to RMB1,946.3 million as of June 30, 2016; and (ii) an increase in lease receivables from RMB412.8 million as of December 31, 2015 to RMB485.5 million as of June 30, 2016, which in turn was attributable to the expansion of our financial leasing business.

Our net current liability decreased from RMB1,370.5 million as of December 31, 2014 to RMB1,026.1 million as of December 31, 2015 primarily due to (i) an increase in lease receivables of RMB412.8 million from our financial leasing business, which was started in September 2014, (ii) an increase in prepayments and other receivables of RMB146.6 million, which in turn was attributable to deposits of RMB100.8 million paid during the bidding process, and (iii) a decrease in trade and bills payables of RMB265.7 million, which in turn was attributable to the timing of payment to Shanghai Gas Group, partially offset by an increase of borrowings from RMB864.0 million as of December 31, 2014 to RMB1,497.7 million as of December 31, 2015.

Net current liability decreased from RMB1,414.4 million as of December 31, 2013 to RMB1,370.5 million as of December 31, 2014 primarily due to an increase of cash and cash equivalent from RMB959.5 million as of December 31, 2013 to RMB1,530.1 million as of December 31, 2014, which was in turn largely driven by cash flow from operating activities, partially offset by an increase of trade and bills payables from RMB956.5 million as of December 31, 2013 to RMB1,377.2 million as of December 31, 2014.

Our net current liabilities were in part a result of the nature of our public utility service businesses, especially the piped gas supply services, in which we need to make significant capital expenditure on pipeline construction and conversion, which is recorded as our non-current assets, using primarily (i) cash generated from our operating activities and (ii) proceeds from short-term bank borrowings.

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Our short-term trade and bills payables consisted primarily payables due to Shanghai Gas Group for piped gas procurement fees. During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not have any material dispute with Shanghai Gas Group or any disruption in operations due to any account payable issues.

Our Directors confirm that we did not have any material defaults in payment of bank borrowings, and we did not have any breach of financial covenants during the Track Record Period. Certain provisions in relation to payment schedule and additional payment obligations under our framework gas purchase agreement were not strictly complied, for details please refer to “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement — Piped gas suppliers — Piped gas supplier in Shanghai”. Based on the financial resources available to our Group, including cash and cash equivalent, internally generated funds and available banking facilities, our Directors believe, and the Joint Sponsors concur, that we will be able to satisfy our working capital requirements in the next 12 months from the date of this prospectus, not taking into consideration the proceeds to be received from the Global Offering.

For more details on our net current liabilities, please refer to “Risk Factors — Risks Relating to Our Business — We recorded net current liabilities during the Track Record Period and we cannot assure you that we will record net current assets in the future”.

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Inventory

Our inventory consisted primarily of raw materials and finished goods. Raw materials consisted primarily of gas pipes and other material related to piped gas supply and pipeline constructions, and was RMB11.2 million, RMB14.6 million, RMB10.3 million and RMB14.2 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. Finished goods consisted primarily of gadgets and equipment of piped gas, such as pressure meters, and was RMB17.3 million, RMB16.0 million, RMB11.9 million and RMB18.3 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

Our average turnover days of inventory was 4.5 days, 2.9 days, 2.5 days and 2.3 days in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. As of September 30, 2016, we consumed substantially all of the inventory that was outstanding as of June 30, 2016.

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Trade and Bills Receivables

The table below sets forth our trade and bills receivables as of the indicated dates:

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables				
– Trade receivables	348,485	312,106	331,652	313,687
– Bills receivables	–	–	17,081	5,237
	<u>348,485</u>	<u>312,106</u>	<u>348,733</u>	<u>318,924</u>
Less: Allowance for impairment losses	(19,180)	(17,908)	(19,259)	(19,672)
Current portion	329,305	294,198	329,474	299,252
Non-current: retention sum for construction contracts	<u>643,683</u>	<u>593,349</u>	<u>544,600</u>	<u>519,784</u>
	<u><u>972,988</u></u>	<u><u>887,547</u></u>	<u><u>874,074</u></u>	<u><u>819,036</u></u>

Trade receivables consisted primarily of receivables in piped gas from our end users, as well as receivables from wastewater treatment projects from local governments. Due to the large number of piped gas end users compared to the available work force for meter reading, we read meters on a rolling basis and we generally read the meter and issue the bill for each piped gas residential end user every two months. We estimate it generally takes a month for us to receive payment from residential end users after we issued the bills. As such, we generally receive payment for piped gas supplied to residential end users after three months. We grant credit to certain local government customers with whom we have established long-term relationship. The credit term is generally 60 days. Trade receivables decreased from December 31, 2013 to December 31, 2014 primarily due to the decrease in trade receivables from sales of piped gas operations as of December 31, 2014 as compared to December 31, 2013. Trade receivables increased from December 31, 2014 to December 31, 2015 primarily as a result of the increase in revenue from our sales of piped gas operations. Trade receivables decreased from December 31, 2015 to June 30, 2016 primarily due to the decrease in trade receivables from sales of piped gas operations as a result of the decrease in revenue in the summer.

The trade receivables from the five largest debtors as of December 31, 2013, 2014 and 2015 and June 30, 2016 represented 28.4%, 24.2%, 30.0% and 37.5% of total trade receivables. In particular, our largest debtor accounted for 11.2%, 9.5%, 10.6% and 13.9% of the total receivables that were due as of December 31, 2013, 2014 and 2015 and June 30, 2016.

Our non-current trade and bill receivables consisted primarily of retention sum for construction contracts, which in turn consisted primarily of investment amounts of the Xiaoshan wastewater treatment plant and the public infrastructure projects in Changzhou under BT arrangements. Retention sum for construction contracts are not past due.

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The table below sets forth the aging analysis of our trade and bills receivables based on the invoice date as of the indicated dates:

	As of December 31,			As of
				June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	306,482	286,263	321,377	287,417
1 to 2 years	6,194	5,892	5,927	9,550
2 to 3 years	19,866	3,178	3,407	3,379
3 to 4 years	1,974	2,072	2,354	2,415
4 to 5 years	1,485	1,584	1,591	1,705
Over 5 years	12,484	13,117	14,077	14,458
	<u>348,485</u>	<u>312,106</u>	<u>348,733</u>	<u>318,924</u>
Less: Allowance for impairment losses	(19,180)	(17,908)	(19,259)	(19,672)
	<u><u>329,305</u></u>	<u><u>294,198</u></u>	<u><u>329,474</u></u>	<u><u>299,252</u></u>

As of December 31, 2013, 2014 and 2015 and June 30, 2016, impairment allowance accounted for 5.5%, 5.7%, 5.5% and 6.2% of our total trade and bills receivables, respectively.

The aging analysis of the trade and bills receivables from third parties of the Group, excluding the retention receivables, that are not individually nor collectively considered to be impaired is as follows:

	As at December 31,			As at
				June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	246,611	249,691	297,922	234,313
Within 1 year past due	56,806	33,807	20,412	50,282
1 to 2 years past due	5,884	5,598	5,630	9,072
2 to 3 years past due	17,879	2,860	3,066	3,041
3 to 4 years past due	1,382	1,450	1,648	1,691
4 to 5 years past due	743	792	796	853
	<u>329,305</u>	<u>294,198</u>	<u>329,474</u>	<u>299,252</u>

Receivables from third parties that were neither past due nor impaired related to a large number of diversified customers, including end users of piped gas supply services, for whom there was generally no recorded recent history of default. Receivables that were past due but not impaired relate to a number of independent customers we consider to have a good track

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record with us. Based on past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We do not hold any collateral or other credit enhancements over these balances. Trade and bills receivables outstanding as of June 30, 2016 was RMB299.3 million, of which RMB251.6 million, or 84.1%, was collected as of September 30, 2016.

The table below sets forth the average turnover days of our trade and bill receivables for the indicated periods:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	Average turnover days ⁽¹⁾	28.7	27.0	24.7

Note:

- (1) The average turnover days are calculated using the average of opening and closing balance of current portion of the trade and bill receivables for a period divided by the revenue of the period and multiplied by the number days in the period.

Our average turnover days of the current portion of the trade and bill receivables was 28.7 days, 27.0 days, 24.7 days and 22.5 days in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

Lease Receivables

Lease receivables of RMB896.9 million as of June 30, 2016 consisted primarily of our initial investment amount for our outstanding financial leasing business.

The table below sets forth the aging analysis of our lease receivables as of June 30, 2016:

	Lease receivables	Unearned finance income	Net lease receivables
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	544,113	(58,609)	485,504
1 to 2 years	291,913	(24,759)	267,154
2 to 3 years	130,370	(5,503)	124,867
3 to 4 years	12,785	(1,230)	11,555
4 to 5 years	8,138	(303)	7,835
	987,319	(90,404)	896,915
Less: Non-current portion	(443,206)	31,795	(411,411)
Current portion	544,113	(58,609)	485,504

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Loan Receivables

Our loan receivables consisted of outstanding loan amount we granted to customers in our micro-credit business. Loan receivables were RMB9.9 million, RMB183.9 million, RMB200.8 million and RMB202.7 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively, representing 0.2%, 3.5%, 3.0% and 2.9% of our net assets as of the same dates. Vast majority of the small loans we granted had terms of one year or less. The amount of loan past due was nil, RMB20.5 million, RMB44.9 million and RMB44.9 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively, representing nil, 11.1%, 22.4% and 22.1% of the total outstanding loan amount as of the same date. We recognized impairment allowance of RMB0.1 million, RMB2.6 million, RMB7.4 million and RMB7.7 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively, representing 1.0%, 1.4%, 3.7% and 3.8% of the total loan receivables as of the same dates.

The fair value of financial or non-financial assets accepted as collateral that we are permitted to sell or repledge in the absence of default was RMB8.0 million, RMB154.7 million, RMB316.3 million and RMB558.5 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

Amount Due from Grantor

The amount due from grantor was RMB751.1 million, RMB719.6 million, RMB686.3 million and RMB669.8 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. Amount due from grantor was attributable to revenue from construction services under BOT arrangement for our Xiangyin Road Tunnel project and bears interest at a rate of 5.4% per annum. The amount was not yet due for payment as of June 30, 2016 and is expected to be settled by revenue to be generated during the operating periods of the BOT arrangement.

Property, Plant and Equipment

Our property, plant and equipment was RMB3,782.1 million, RMB4,246.0 million, RMB4,390.4 million and RMB4,348.0 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively, which consisted primarily of piped gas pipelines and machinery, as well as buildings, leasehold improvements, motor vehicles and fixtures. As of June 30, 2016, Shanghai Dazhong Gas and Nantong Dazhong Gas had RMB3,212 million and RMB1,052 million of property, plant and equipment carried at net book value respectively. Net book value of gas pipelines and machinery was RMB3,164.5 million, RMB3,334.5 million, RMB3,561.7 million and RMB3,758.9 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively, accounting for 83.7%, 78.5%, 81.1% and 86.5% of our total property, plant and equipment of the same dates. Decrease in property, plant and equipment as of June 30, 2016 as compared to December 31, 2015 was primarily due to the transfer of construction in progress of RMB208.9 million in relation to Phase III of Jiading Plant to intangible assets upon completion of the construction. Increase in property, plant and equipment as of December 31,

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2015 as compared to December 31, 2014 was primarily due to property, plant and equipment recognized in connection with the constructions of new pipeline network and the expansion of Jiading wastewater treatment plant pursuant to stage of completion.

Depreciation of property, plant and equipment had a significant impact on our results of operation. Depreciation of property, plant and equipment was RMB265.2 million, RMB291.1 million, RMB312.3 million and RMB163.2 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

Interest in Associates

Interest in associates consisted of value of our investments in our associated companies over which our Directors believe we have significant influence. As such, interest in associates was recorded using equity methods.

The table below sets forth our interest in associates as of the indicated dates:

Name of company	Registered and paid up capital RMB	As of December 31,						As of June 30,		Principal activities
		2013		2014		2015		2016		
		Percentage of equity interest		Percentage of equity interest		Percentage of equity interest		Percentage of equity interest		
		Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Dazhong Transportation Group	2,364,122,864	20.76	3.72	20.76	3.78	19.82	4.14	19.82	5.72	Public utility services
Shenzhen Capital Group	4,202,249,520	13.93	–	13.93	–	13.93	–	13.93	–	Investment holding and provision of financial consultation and assets management services
SEISYS	100,000,000	28	–	28	–	28	–	28	–	Provision of products and services for intelligent transportation field
Shanghai Hangxin	255,600,000	16.13	–	16.13	–	16.13	–	16.13	–	Investment
Shanghai Xingye Venture Capital	40,000,000	20	–	20	–	20	–	20	–	Investment
Xuhui Onlly Micro-credit	150,000,000	20	–	20	–	20	–	20	–	Micro-credit services
Suchuang Gas	50,000,000	–	–	–	–	–	–	–	19.76	Supply of piped gas

Interest in associates consisted primarily of value of our investments in Dazhong Transportation Group and Shenzhen Capital Group.

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Investment in Dazhong Transportation Group

The table below sets forth reconciliation of our interest in Dazhong Transportation Group as of the indicated dates:

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
				<i>RMB'000</i>
Dazhong Transportation Group				
Current assets	4,337,013	4,721,075	5,885,951	6,223,337
Non-current assets	5,909,153	6,518,985	8,816,074	9,631,124
Current liabilities	(3,800,604)	(3,893,155)	(4,598,056)	(5,136,771)
Non-current liabilities	(293,890)	(408,425)	(969,204)	(1,104,259)
Net assets	<u>6,151,672</u>	<u>6,938,480</u>	<u>9,134,764</u>	<u>9,613,431</u>
Our interests in Dazhong Transportation Group:				
Percentage of our ownership interest	24.48%	24.54%	23.96%	25.54%
Our share of net assets of Dazhong Transportation Group	1,352,351	1,554,683	2,053,590	2,319,199
Goodwill	27,362	28,108	40,318	92,431
Eliminated of unrealized profit	(18,695)	(18,695)	(17,848)	(17,848)
Carrying amount of Dazhong Transportation Group	<u>1,361,018</u>	<u>1,564,096</u>	<u>2,076,060</u>	<u>2,393,782</u>

Dividend distributed to us by Dazhong Transportation Group was RMB30.2 million, RMB30.5 million, RMB33.3 million and RMB37.6 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

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Investment in Shenzhen Capital Group

The table below sets forth reconciliation of our interest in Shenzhen Capital Group as of the indicated dates:

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
				<i>RMB'000</i>
Shenzhen Capital Group				
Current assets	2,128,439	2,682,788	3,558,884	4,003,252
Non-current assets	10,584,662	11,270,118	16,648,576	16,262,380
Current liabilities	(3,086,308)	(2,564,218)	(3,936,089)	(5,345,078)
Non-current liabilities	(1,149,424)	(2,066,331)	(3,175,618)	(2,686,839)
Net assets	<u>8,477,369</u>	<u>9,322,357</u>	<u>13,095,753</u>	<u>12,233,715</u>
Our interests in Shenzhen Capital Group:				
Proportion of our ownership interests	13.93%	13.93%	13.93%	13.93%
Our share of net assets of Shenzhen Capital Group	<u>1,110,914</u>	<u>1,209,837</u>	<u>1,690,895</u>	<u>1,581,177</u>
Carrying amount of Shenzhen Capital Group	<u>1,110,914</u>	<u>1,209,837</u>	<u>1,690,895</u>	<u>1,581,177</u>

In addition, in 2013 we granted a loan in the amount of RMB60.3 million to Shenzhen Capital Group. The loan is unsecured with an interest of 8% per annum, and is due in November 2016. The outstanding principal amount of the loan was RMB60.3 million, RMB60.3 million, RMB60.3 million and RMB60.3 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

Dividend received to us by Shenzhen Capital Group was RMB48.8 million, RMB48.8 million, RMB58.5 million and nil in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

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Available-for-sale Financial Assets

Available-for-sale investments were investments in target companies over which our Directors believe we do not have significant influence. The table below sets forth our available-for-sale financial assets as of the indicated dates:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current investments				
– Listed debt investments	49,692	32,935	16,910	17,165
– Listed equity investments	236,389	432,382	505,513	462,137
– Unlisted equity investments	577,007	376,286	366,537	458,581
	863,088	841,603	888,960	937,883
Less: Allowance for impairment losses	(97,861)	(55,231)	(55,231)	(55,231)
	765,227	786,372	833,729	882,652

We focus our major available-for-sale investment on equity interest of public listed companies or companies with an immediate plan for initial public offerings. Our largest available-for-sale investment in terms of asset value as of June 30, 2016 was an investment in Chinese Culture Investment. For more details of our available-for-sale investments, please refer to the section “Business — Financial Investment — Overview of Our Investment Portfolio — Available-for-sale financial assets”.

The main reasons for the fluctuation in value of our available-for-sale financial assets during the Track Record Period were (i) the acquisition and disposal of the investments in each period; and (ii) changes in the value of listed equity investments and debt investments at the end of each period.

The unlisted equity instruments we held are issued by private companies. As the reasonable range of fair value estimation is so significant that the Directors are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period. The Directors assessed, at the end of each of the relevant fiscal year or period, whether there was any objective evidence that the unlisted equity investments were impaired. The steps taken by the Directors in assessing whether such objective evidence existed mainly include (i) obtaining information about whether there were significant adverse change that had taken place in the technological, market, economic or legal environment in which the investees operated, such as structural changes in the industries in which the investees operate, changes in the level of demand for the goods or services sold by the investees resulting from product obsolescence, changes in the political or legal

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environments affecting the investee's business; and (ii) whether there was any observable evidence about loss events such as changes in the investee's financial condition evidenced by changes in its liquidity, credit rating, profitability, cash flows, debt/equity ratio and level of dividend payment of the investees, that indicates that the cost of the investments might not be recovered. Our Directors considered that a significant or prolonged decline in the fair value of an investment in an equity instrument below cost is also objective evidence of impairment. When there was objective evidence that any such individual asset was impaired, the amount of impairment loss was measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. We made allowance for impairment losses of RMB97.9 million, RMB55.2 million, RMB55.2 million and RMB55.2 million on available-for-sale financial assets as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. Impairment as of December 31, 2013 was primarily attributable to RMB52.0 million impairment on investment in Dazhong Insurance. Impairment as of December 31, 2013 was also attributable to Shanghai Autocraft Co., Ltd.* (上海奧達科股份有限公司) in the amount of RMB40.0 million. The significant decrease in impairment in 2014 was due to disposal of Dazhong Insurance.

Trade and Bills Payables

The table below sets forth our trade and bills payables as of the indicated dates:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables				
– third party	206,338	384,677	297,201	422,667
– Shanghai Gas Group	736,310	992,482	814,254	1,053,007
– related company	722	–	–	–
	943,370	1,377,159	1,111,455	1,475,674
Bills payable	13,095	–	–	–
Total	956,465	1,377,159	1,111,455	1,475,674

The majority of our trade and bills payables were payables due to Shanghai Gas Group, which accounted for 77.0%, 72.1%, 73.3% and 71.4% of our total trade and bills payables as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. Trade payables due to Shanghai Gas Group consisted primarily of unpaid procurement fee for piped gas. The fluctuations as of the end of each fiscal period during the Track Record Period were primarily due to the increase in transaction volume with Shanghai Gas Group as the result of the timing of payment. Trade payables to third party consisted primarily of payable due to subcontractors and suppliers in connection with construction of pipelines for our end users. Trade and bills payable as of June 30, 2016 was RMB1,475.7 million, of which RMB559.6 million, or 37.9%, was settled as of September 30, 2016.

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The table below sets forth an age analysis of our trade and bills payables as of the indicated dates:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	942,459	1,365,978	1,101,783	1,464,787
1 to 2 years	3,287	3,415	971	3,711
2 to 3 years	5,885	749	2,022	1,776
Over 3 years	4,834	7,017	6,679	5,400
	956,465	1,377,159	1,111,455	1,475,674

The table below sets forth the average turnover days of our trade and bills payables for the indicated periods:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	Average turnover days ⁽¹⁾	92.8	115.4	116.8

Note:

- (1) The average turnover days are calculated using the average of opening and closing balance of the trade and bills payables for a period divided by the cost of sales of the period and multiplied by the number of days in the period.

Our average turnover days of the trade and bills payables was 92.8 days, 115.4 days and 116.8 days in 2013, 2014 and 2015, respectively. The increases were primarily due to the increase in payables due to upstream piped gas suppliers, which were in turn primarily due to the increase in volume of natural gas we procured. Our average turnover days of the trade and bills payables decreased to 109.5 days for the six months ended June 30, 2016 primarily due to increase in cost of sales, which in turn was attributable to the increase in purchase in the six months ended June 30, 2016.

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Other Payables

The table below sets forth our other payables as of the indicated dates:

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
				<i>RMB'000</i>
Current portion				
Deposits received, other payables and accruals	376,250	432,150	539,063	412,757
Payables due to Shanghai Gas Group	42,444	52,521	20,791	18,131
Receipt in advance	158,357	120,928	114,644	166,201
Salary payables	43,484	46,157	57,006	53,042
Interest payables	55,343	2,132	1,979	43,989
Dividend payables	911	911	911	2,711
Deferred government grants	272	272	272	272
	<u>677,061</u>	<u>655,071</u>	<u>734,666</u>	<u>697,103</u>
Non-current portion				
Amount due to Shanghai Gas Group	37,310	37,310	37,310	37,310
Financial leasing deposit received	–	–	56,785	79,685
Other payables	1,064	792	11,900	42,387
	<u>38,374</u>	<u>38,102</u>	<u>105,995</u>	<u>159,382</u>

Deposit received, other payables and accruals were mainly attributable to our piped gas supply operations and consisted primarily of (i) payable to our sub-constructors in connection construction for pipelines that would be recognized as our assets, the amount of which as of the end of each fiscal period during the Track Record Period varied as a result of the condition and progress of on-going construction projects as of the respective dates; and (ii) refundable deposit and prepayment made by new piped gas end users in Nantong Area pursuant to the relevant piped gas supply agreements. The increases were in line with the growth in our piped gas supply operations during the Track Record Period.

Other payables due to Shanghai Gas Group consisted primarily of certain payment we collected on behalf of Shanghai Gas Group in connection with pipeline construction.

Receipt in advance consisted prepayment made to us by non-residential end users in connection with pipeline construction before the commencement of the construction, the amount of which as of the end of each fiscal period during the Track Record Period varied as a result of the condition and progress of on-going construction projects as of the respective dates.

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Dividend payables consisted primarily of dividends declared over ten years ago and payable to shareholders who have not provided us with valid contact information.

Other payables consisted primarily of government subsidy received on disposal of sludge in connection with our wastewater treatment operations.

Deferred Income

Deferred income represents the one-time fees paid by customers in advance in exchange for the connection to our gas pipeline network after which the customers will be able to receive piped gas supply. These fees are received upfront and revenue is recognized over ten years.

The table below sets forth the movement of our deferred income as of the indicated dates:

	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of January 1	1,105,992	1,143,099	1,194,979	1,281,482
Additions	241,424	255,864	293,846	160,296
Released to profit or loss	(204,317)	(203,984)	(207,343)	(108,331)
As of December 31 for 2013, 2014 and 2015/ June 30 for 2016	<u>1,143,099</u>	<u>1,194,979</u>	<u>1,281,482</u>	<u>1,333,447</u>

The table below sets forth the breakdown of our deferred income by nature as of the indicated dates:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	188,700	195,224	203,076	209,969
Non-current	954,399	999,755	1,078,406	1,123,478
Total	<u>1,143,099</u>	<u>1,194,979</u>	<u>1,281,482</u>	<u>1,333,447</u>

A portion of the deferred income related to the uncertainty of the entitlement of certain connection fees from residential end users as a result of our acquisition of 50% equity interest in Shanghai Dazhong Gas from a predecessor of Shanghai Gas Group in 2001. In June 2006, Shanghai Dazhong Gas set aside a deposit in relation to this one-off fee. In 2010, the deposit with interest of total amount RMB154.9 million was released to us and recorded under deferred income. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the deferred balance remained unchanged at RMB139.4 million.

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Our Directors are of the view that the deferred income of RMB139.4 million together with the related interest income of RMB8.9 million would be recognized as income of Shanghai Dazhong Gas if the dispute is resolved in our favor and would not have any impact on our consolidated statements of profit or loss if it is resolved against us.

Amounts due to Customers for Contract Work

The table below sets forth our amounts due to customers for contract work as of the indicated dates:

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracts in progress at the end of reporting period:				
Contract costs incurred plus recognized profits less recognized losses	264,282	314,166	256,272	286,009
Progress billings	(626,262)	(783,339)	(692,885)	(740,020)
	(361,980)	(469,173)	(436,613)	(454,011)
Represented by:				
Due to customers included in current liabilities	(361,980)	(469,173)	(436,613)	(454,011)

Amounts due to customers for contract work consisted primarily of progress billings, partially offset by contract costs incurred plus recognized profit less recognized losses.

Progress billings represented installment payments made to us by end users for the construction of gas pipelines after the commencement of the construction. The changes as of the end of each fiscal period during the Track Record Period were primarily due to changes in total number of pipeline construction projects in progress during the Track Record Period.

Contract costs incurred plus recognized profit less recognized losses consisted primarily of payment already made to third-party constructors based on stage of construction completion, the amount as of the end of each fiscal period during the Track Record Period varied as a result of the condition and progress of on-going construction projects as of the respective dates.

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Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss consisted primarily of our investment in public listed companies evaluated at their stock prices. The significant increase from RMB181,000 as of December 31, 2013 to RMB47.2 million as of December 31, 2014 and further to RMB106.3 million as of December 31, 2015 were primarily due to increases in stock prices of our portfolio companies as a result of the favorable stock market conditions during the relevant periods. Our financial assets at fair value through profit and loss decreased from RMB106.3 million as of December 31, 2015 to RMB64.4 million as of June 30, 2016 as a result of the unfavorable stock market conditions during the six months ended June 30, 2016.

Tax Liabilities

Current tax liabilities represented tax liabilities at the end of the periods which was primarily due to time difference between reporting period and tax payment. Our current tax liabilities were RMB21.2 million, RMB22.7 million, RMB22.5 million and RMB60.8 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

Deferred tax liabilities consisted primarily of tax liability attributable to recorded but unrealized other comprehensive income during the relevant periods. Our deferred tax liabilities were RMB57.6 million, RMB103.1 million, RMB120.3 million and RMB99.5 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We finance our liquidity requirements primarily through cash flow generated from operating activities and proceeds from interest-bearing bank loans, debt instruments and other borrowings. Our primary uses of cash include capital expenditures on property, plant and equipment, our financial investments and servicing indebtedness.

The table below sets forth selected cash flow data from our consolidated statements of cash flow for the indicated periods:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Net cash generated from operating activities	532,489	890,274	355,167	436,711	462,076
Net cash used in investing activities	(137,758)	(359,763)	(902,157)	(291,012)	(636,556)
Net cash (used in)/ generated from financing activities	(669,303)	40,830	562,159	149,911	564,028
Cash and cash equivalent at end of the year/period	959,450	1,530,079	1,549,655	1,826,520	1,946,288

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Net Cash Generated from/(Used in) Operating Activities

We derive our cash inflow from operating activities primarily from our sales of piped gas and fees paid to us for public utility services we provided. Our cash outflow for operating activities is primarily used for procurement of piped gas, purchase of raw materials and merchandise, selling and distribution costs, administrative expenses and taxes. Cash flows from operating activities can be significantly affected by factors such as the timing of collections of trade receivables from customers and payments of trade payables to suppliers during the ordinary course of business.

For the six months ended June 30, 2016, our net cash generated from operating activities was RMB462.1 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB,312.5 million. The difference of RMB149.6 million was primarily attributable to (i) an increase in trade and bills payables of RMB264.5 million due to the timing of payment to Shanghai Gas Group and our subcontractors for pipeline construction business; (ii) a decrease of RMB41.9 million in trade and bills receivables due to the decrease in trade receivables from sales of piped gas operations as a result of the decrease in revenue in the summer; and (iii) an increase of RMB51.8 million in deferred income due to the increase in revenue from the one-time gas connection fee from new residential end users, partially offset by a decrease in other payables of RMB165.1 million due to a decrease in refundable deposit and prepayment made by property developers and owners in Nantong Area.

For the six months ended June 30, 2015, our net cash generated from operating activities was RMB436.7 million, while our net cash generated from operating activities after adjustment for non-cash items but before changes in working capital was RMB320.4 million. The difference of RMB116.3 million was primarily attributable to (i) an increase in trade and bills payables of RMB100.7 million due to the timing of payment to Shanghai Gas Group; (ii) an increase in other payables of RMB59.9 million due to an increase in refundable deposit and prepayment made by property developers and owners in Nantong Area, partially offset by a decrease in amounts due to customers for contract work of RMB72.7 million due to our payment to subcontractors upon completion of the construction projects.

For the year ended December 31, 2015, our net cash generated from operating activities was RMB355.2 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB567.7 million. The difference of RMB212.5 million was primarily attributable to (i) a decrease in trade and bills payables of RMB179.9 million due to the timing of payment to Shanghai Gas Group; (ii) an increase in trade and bills receivables of RMB40.0 million due to the expansion of our piped gas supply operations; and (iii) a decrease in amounts due to customers for contract work of RMB32.6 million due to our payment to subcontractors upon completion of the construction projects, partially offset by an increase in other payables of RMB72.3 million due to an increase in refundable deposit and prepayment made by property developers and owners in Nantong Area.

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For the year ended December 31, 2014, our net cash generated from operating activities was RMB890.3 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB362.4 million. The difference of RMB527.9 million was primarily attributable to (i) an increase in trade and bills payables of RMB313.8 million due to the timing of payment to Shanghai Gas Group; (ii) an increase in amounts due to customers for contract work of RMB107.2 million as a result of the increase in installment payments made to us as we commenced a number of pipeline construction projects in 2014; and (iii) an increase in other payables of RMB67.9 million due to an increase in refundable deposit and prepayment made by property developers and owners in Nantong Area; and (iv) a decrease in trade and bills receivables of RMB44.5 million due to the decrease in trade receivables from sales of piped gas operations as of December 31, 2014 as compared to December 31, 2013.

For the year ended December 31, 2013, our net cash generated from operating activities was RMB532.5 million, while our net cash flows from operating activities after adjustment for non-cash items but before changes in working capital was RMB286.9 million. The difference of RMB245.6 million was primarily attributable to (i) an increase in trade and bills payables of RMB163.5 million due to the timing of payment to Shanghai Gas Group; (ii) an increase in amounts due to customers for contract work of RMB84.8 million as a result of the increase in installment payments made to us as we commenced a number of pipeline construction projects in 2013; and (iii) an increase in other payables of RMB53.6 million due to an increase in refundable deposit and prepayment made by property developers and owners in Nantong Area; partially offset by an increase in trade and bills receivables of RMB43.2 million due to the expansion of our piped gas operations.

Net Cash Used in Investing Activities

We used net cash of RMB636.6 million in investing activities in the six months ended June 30, 2016. Net cash used in investing activities was primarily attributable to (i) RMB760.5 million of payment for acquisition of new investments, which consisted primarily of cash payment for the purchase of equity and debt securities; (ii) RMB31.0 million in acquisition of intangible assets in connection with the completion of construction of Phase III of Jiading plant; (iii) RMB194.6 million in purchase of property, plant and equipment, which consisted primarily of cash payment we made in connection with construction of gas pipelines; (iv) RMB154.6 million for increase in pledged deposit in connection with the loan we obtained for our acquisition of shares in Suchuang Gas; and (v) RMB117.8 million net payment in lease receivables due to the expansion of our financial leasing business, partially offset by (i) RMB279.7 million of proceeds from return on investment and financial assets, which consisted primarily of cash dividend payment received from associated companies; and (ii) RMB124.4 million proceeds from disposal of investments and financial assets, which consisted primarily of cash proceeds we received from disposal of stocks and debts we held as investment, and (iii) RMB100.8 million cash received for refund of deposits for our tender for wastewater treatment projects.

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We used net cash of RMB291.0 million in investing activities in the six months ended June 30, 2015. Net cash used in investing activities was primarily attributable to (i) RMB417.8 million of payment for acquisition of new investments, which consisted primarily of cash payment for the purchase of stocks and debt securities; and (ii) RMB321.2 million in purchase of property, plant and equipment, which consisted primarily of cash payment we made in connection with construction of gas pipelines, partially offset by RMB406.1 million proceeds from disposal of financial assets, which consisted primarily of cash proceeds we received from disposal of stocks and debts we held as investment.

We used net cash of RMB902.2 million in investing activities in 2015. Net cash used in investing activities was primarily attributable to (i) RMB558.6 million in purchase of property, plant and equipment, intangible assets and long-term investment, which consisted primarily of cash payment we made in connection with construction of gas pipelines and Phase III of Jiading plant, (ii) RMB856.2 million of payment for acquisition of new investments, which consisted primarily of cash payment for the purchase of stocks and debt securities; (iii) RMB655.1 million of net payment in lease receivables due to the expansion of our financial leasing business; and (iv) RMB100.8 million payment for deposits for our tender for wastewater treatment projects, partially offset by (i) RMB919.8 million of proceeds from disposal of financial assets, which consisted primarily of cash proceeds we received from disposal of stocks and debts we held as investment; (ii) RMB263.2 million of income from investing transactions, which consisted primarily of cash dividend payment received from associated companies; and (iii) RMB166.6 million cash received from our BT and BOT arrangements.

We used net cash of RMB359.8 million in investing activities in 2014. Net cash used in investing activities was primarily attributable to (i) RMB674.8 million in purchase of property, plant and equipment, intangible assets and long-term investment, which consisted primarily of cash payment we made in connection with construction of gas pipelines and wastewater treatment plants and (ii) RMB617.4 million of payment for acquisition of new investments, which consisted primarily of cash payment for the purchase of stocks and debt securities, partially offset by (i) RMB859.6 million of proceeds from disposal of financial assets, which consisted primarily of cash proceeds we received from disposal of stocks and debt securities we held as investment; (ii) RMB161.3 million cash received from our BT and BOT arrangements; and (iii) RMB123.0 million of gains from investing transactions, which consisted primarily of cash dividend payment received from associated companies.

We used net cash of RMB137.8 million in investing activities in 2013. Net cash used in investing activities was primarily attributable to (i) RMB467.6 million in purchase of property, plant and equipment, intangible assets and long-term investment, which consisted primarily of cash payment we made in connection with construction of gas pipelines and (ii) RMB380.8 million of payment for acquisition of new investments, which consisted primarily of cash payment for the purchase of stocks and debt securities, partially offset by (iii) RMB223.7 million of proceeds from disposal of financial assets, which consisted primarily of cash proceeds we received from disposal of stocks and debt securities we held as investment; (iv) RMB134.2 million of gains from investing transactions, which consisted primarily of cash dividend payment

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received from associated companies; (v) RMB146.7 million of sales proceeds from disposal of subsidiaries and other operating units, which consisted primarily of proceeds received from the disposal of Hainan Dazhong Public Utilities Industry Development Co., Ltd.* (海南大眾公用產業發展有限公司) and (vi) RMB174.0 million cash received from our BT and BOT arrangements.

Net Cash Generated from/(Used in) Financing Activities

We generated net cash of RMB564.0 million from financing activities in the six months ended June 30, 2016. Net cash generated from financing activities was primarily attributable to RMB1,845.9 million from new bank borrowings, partially offset by (i) RMB1,065.8 million repayment of bank borrowings and (ii) RMB148.0 million payment for dividends to our shareholders.

We generated net cash of RMB149.9 million from financing activities in the six months ended June 30, 2015. Net cash generated from financing activities was primarily attributable to RMB1,047.6 million from new bank borrowings, partially offset by (i) RMB792.3 million repayment of bank borrowings and (ii) RMB57.4 million payment for dividends to our shareholders.

We generated net cash of RMB562.2 million from financing activities in 2015. Net cash generated from financing activities was primarily attributable to RMB3,475.1 million new bank borrowings, partially offset by RMB2,672.4 million repayment of bank borrowings.

We generated net cash of RMB40.8 million from financing activities in 2014. Net cash generated from financing activities was primarily attributable to RMB1,678.1 million from new bank borrowings, partially offset by RMB1,381.7 million repayment of bank borrowings.

We used net cash of RMB669.3 million in financing activities in 2013. Net cash used in financing activities was primarily attributable to RMB1,717.1 million repayment of bank borrowings partially offset by RMB1,164.9 million from new bank borrowings.

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INDEBTEDNESS

Bank Borrowings

The table below sets forth our indebtedness as of the indicated dates:

	As of December 31,			As of June 30,	As of September 30,
	2013	2014	2015	2016	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Current portion					
Secured bank loans	123,995	127,026	135,710	459,790	450,907
Unsecured bank loans	524,500	737,000	1,361,999	1,875,816	1,791,824
	648,495	864,026	1,497,709	2,335,606	2,242,731
Non-current portion					
Secured bank loans	161,550	225,550	185,000	162,234	157,000
Unsecured bank loans	25,500	34,476	253,710	223,198	259,334
	187,050	260,026	438,710	385,432	416,334
Total borrowings	835,545	1,124,052	1,936,419	2,721,038	2,659,065
Bank loans interest at rate per annum in the range of	1.15% to 6.56%	1.15% to 6.55%	0.90% to 5.84%	0.90% to 4.90%	0.93% to 4.90%

During the Track Record Period, the majority of our bank borrowings were short-term borrowings with terms of one year or less. Outstanding loan amount payable on demand or within one year as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016 was RMB648.5 million, RMB864.0 million, RMB1,497.7 million, RMB2,335.6 million and RMB2,242.7 million, respectively, representing 77.6%, 76.9%, 77.3%, 85.8% and 84.3% of the total outstanding loan amount as of the same dates. The increases in current bank borrowings were primarily due to (i) increasing needs for capital our public utility operations as a result of operational scale; and (ii) funding for our micro-credit business and financial leasing business. The increases in outstanding bank borrowing amount were primarily due to the increase in our capital needs as we expand our business operations. Our current borrowings from commercial banks are typically pursuant to form loan agreements of the banks and contain financial covenants typical for such borrowings. Our Directors confirm that we had not defaulted on any payment of interest of principal amount of our current bank borrowings as of the Latest Practicable Date.

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Non-current bank borrowings consisted primarily borrowings to fund the renovation of phase I and II and the construction of Phase III of Jiading wastewater treatment plant and borrowing to refinance expired bank borrowings in connection with the construction of the Xiangyin Road tunnel under BOT arrangement with local government. Our non-current borrowings from commercial banks are typically pursuant to form loan agreements of the banks and contain typical financial covenants for such borrowings. Our Directors confirm that we had not defaulted on any payment of interest of principal amount of our non-current bank borrowings as of the Latest Practicable Date.

During the Track Record Period, certain loans we took were secured loans.

Bank loans with the aggregate principal amount of RMB150.0 million, RMB100.0 million, RMB50.0 million, nil and nil as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016, respectively were secured by the retention sum for construction contracts included in trade and bills receivables of construction contracts.

Bank loans with the aggregate principal amount of RMB118.6 million, RMB227.6 million, RMB239.0 million, RMB212.0 million and RMB212.0 million as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016, respectively, were secured by the financial receivables in connection with our public infrastructure projects.

Bank loans with the aggregate principal amount of RMB2,000 million, RMB2,000 million, RMB2,500 million, RMB2,500 million and RMB2,500 million as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016, respectively, were guaranteed by our Company. The aggregate outstanding amount of such loans was RMB150.0 million, RMB134.0 million, RMB681.8 million, RMB1,117.8 million and RMB1,124.4 million as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016, respectively.

Bank loans with the aggregate principal amount of RMB17.0 million, RMB25.0 million, RMB31.7 million, RMB26.8 million and RMB22.0 million as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016, respectively, were secured by available-for-sale financial assets and financial assets at fair value through profit or loss.

A bank loan with the aggregate principal amount of USD57.0 million and USD56.0 million as of June 30, 2016 and September 30, 2016 was secured by 72 million shares of Dazhong Transportation Group and pledged deposits.

In 2015 Shenergy Group Financial Company Limited, an affiliate company of Shanghai Gas Group, granted Shanghai Dazhong Gas a one-year and unsecured loan in the amount of RMB200 million at an interest rate of 3.915%. In 2016, Shenergy Group Financial Company Limited granted Shanghai Dazhong Gas a one-year and unsecured loan in the amount of RMB100 million at an interest rate of 3.915%. For more details, please refer to the section "Connected Transactions".

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As of September 30, 2016, being the latest practicable date for the purpose of this indebtedness statement, our material sources of liquidity were cash and cash equivalents in the amount of RMB2,283.9 million. As of September 30, 2016, we had total banking facilities of approximately RMB6,919.0 million from our lending bank, of which approximately RMB2,659.1 million was utilized and RMB4,259.9 million was unutilized. Among our RMB4,259.9 million unutilized banking facilities as of September 30, 2016, (i) RMB2,619.3 million were granted to Shanghai Dazhong Financial Leasing for its operation of the financial leasing business, (ii) RMB144.8 million were granted to Nantong Dazhong Gas, and (iii) the remaining RMB1,495.8 million were granted to the Group, among which there is no restrictive covenant for RMB1,262.7 million in the relevant agreements to limit the use of the credit to the type of operations or subsidiaries, meaning that we can use such credit to fund the working capital of Shanghai Dazhong Gas, Nantong Dazhong Gas or other subsidiaries if necessary.

Corporate Bonds

As approved by China Securities Regulatory Commission document [2011] No. 2079, we issued unsecured domestic corporate bonds listed on the Shanghai Stock Exchange, with an aggregate principal amount of RMB1.6 billion on January 6, 2012. The bonds mature in six years and bear interest at a benchmark interest rate (based on Shanghai Interbank Offered Rate) plus an interest margin of 2.95% per annum, payable on a semi-annual basis. The outstanding amount of such corporate bonds was RMB1,582.4 million, RMB1,586.2 million, RMB1,590.5 million, RMB1,592.7 million and RMB1,593.9 million as of December 31, 2013, 2014 and 2015, June 30, 2016 and September 30, 2016, respectively. The bonds have financial covenants typical for corporate bonds, including certain restrictions on our ability to pay dividend or make investment in the event we default on any payment of interest or principal amount. We believe we will be able to repay the outstanding amount of the bonds when they become due in 2018 taking into consideration of our cash equivalents, internally generated funds and available bank facilities. Our Directors confirm that we had not defaulted on any interest payment as of the Latest Practicable Date and none of the financial covenants will materially affect the Global Offering.

During the Track Record Period, we did not experience any delay or default in repayment of bank loans and other borrowings nor experience any difficulties in obtaining banking facilities with terms that are commercially acceptable to us.

Our banking facilities were not subject to material covenants and there were no breach of any such covenants during the Track Record Period up to the Latest Practicable Date.

On April 15, 2016, holders of our A Shares at our annual general meeting passed resolutions authorizing the management of our Company to decide and act on matters related to the issuance of ultra-short term, short-term and medium-term notes with maximum offer size of RMB2.0 billion, RMB2.0 billion and RMB1.1 billion, respectively. On September 12, 2016, the National Association of Financial Market Institutional Investors registered our issuance of ultra-short term, short-term and medium-term notes with maximum offer size of RMB2.0 billion,

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RMB1.0 billion and RMB1.1 billion, respectively a valid term of two years. Such notes can be issued in multiple tranches, targeting at domestic institutional investors trading on the inter-bank market. Factors such as our financing needs, cost and availability of financing alternatives and market conditions will be taken into consideration before any proposed issuance is launched. On September 23, 2016, we issued our first tranche of ultra-short term notes in an aggregate principal amount of RMB300 million with a term of 270 days and an interest rate of 2.90% per annum. Save for that, we currently have no concrete plan regarding the issuance of the above notes or other material external debt financing.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities at the close of business on September 30, 2016.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, our Group did not have any material contingent liabilities that will have a material adverse effect on our financial position, liquidity or results of operation.

CONTRACTUAL AND CAPITAL COMMITMENTS

Operating Lease Commitments

Operating leases – lessee

Except for the prepaid premium for land leases, we lease certain of our land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 1 to 15 years. The table below sets forth the total future minimum lease payments under non-cancellable operating leases in which we are a lessee as of the indicated dates:

	As of December 31,			As of
	2013	2014	2015	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	658	661	4,801	2,645
In the second to fifth year	2,770	2,838	2,909	2,945
After the fifth year	8,154	7,426	6,664	6,283
	<u>11,582</u>	<u>10,925</u>	<u>14,374</u>	<u>11,873</u>

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Operating leases – lessor

We had five investment properties in Shanghai. The table below sets forth our future aggregate minimum lease receivables under non-cancellable operating leases in respect of our investment properties as of the indicated date:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	2,907	4,100	5,500	7,202
In the second to fifth year	10,794	11,073	12,750	15,415
After the fifth year	25,839	23,107	25,244	23,731
	39,540	38,280	43,494	46,348

Capital Commitments

The table below sets forth our capital commitments not provided for in the financial statements as of the indicated dates:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for in respect of:				
Share transfer agreement	99,795	99,795	99,795	51,678
Capital contribution in a subsidiary	–	161,729	–	–
Capital contribution in a subsidiary	–	349,566	221,366	–
	–	349,566	221,366	–

Share transfer agreement. Shanghai Dazhong Equity Investment enter into a share transfer agreement with Shanghai Oriental Media Group Ltd.* (上海東方傳媒集團有限公司) on April 29, 2010 to acquire shares held by the latter party in Chinese Culture Investment at the purchase price of RMB250 million. According to the condition of the mutual agreement, the full amount should be paid upon the completion of the registration of the transfer of shares. As of June 30, 2016, Shanghai Dazhong Equity Investment has paid for RMB198.3 million and the remaining balance of RMB51.7 million of the purchase price remained unpaid.

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Capital contribution in a subsidiary. On October 9, 2014, our Company, Dazhong Transportation Group, and Shanghai Dazhong Business Management entered into an investment agreement in Shanghai to set up a new company namely Shanghai Dazhong Financial Leasing with a registered capital of RMB500 million. As of December 31, 2015, we had fully paid our portion of the registered capital.

Capital contribution in a subsidiary. In August 2014, our Company set up a new company in Shanghai, namely, Shanghai Dazhong Assets Management, with registered capital of RMB500 million. As of June 30, 2016, we had fully paid the registered capital. We funded the capital contribution through our own capital.

CAPITAL EXPENDITURE

Our capital expenditure was RMB868.1 million, RMB1,299.4 million, RMB1,426.6 million and RMB986.2 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. Our capital expenditure consisted primarily of purchase of property, plant and equipment, intangible assets and long-term investment.

During the Track Record Period, we funded our capital expenditure primarily through internally generated resources and external bank borrowings and issuance of debt instruments. The table below sets forth our capital expenditures for the indicated periods.

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i>
Property, plant and equipment	467,635	674,836	558,637	321,242	194,649
Intangible assets	19,744	7,161	11,777	5,280	31,028
Long term investment	380,757	617,386	856,152	417,833	760,528
Total	868,136	1,299,383	1,426,566	744,355	986,205

KEY FINANCIAL RATIOS

The following table sets forth the major financial ratios as of the dates or of the indicated periods:

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2013	2014	2015	2016
Current ratio ⁽¹⁾	0.50	0.62	0.74	0.67
Return on equity ⁽²⁾	7.3%	8.3%	9.2%	10.4% ⁽⁷⁾
Net profit margin ⁽³⁾	8.0%	8.9%	11.6%	14.1%
Net debt to equity ratio ⁽⁴⁾	30.9%	22.2%	29.2%	34.4%
Interest coverage ratio ⁽⁵⁾	3.2	3.4	4.2	6.1
Gearing ratio ⁽⁶⁾	51.3%	51.1%	52.0%	62.7%

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Notes:

- (1) Current ratio equals to current assets divided by current liabilities as at the end of the period.
- (2) Return on equity represents profit attributable to owners of our Company for the period as a percentage of total equity attributable to owners of our Company at the end of the same period.
- (3) Net profit margin equals to our profit for the year divided by our total revenue for the same period.
- (4) Net debt to equity ratio equals to net debt divided by total equity as at the end of the period.
- (5) Interest coverage ratio equals to profit before interest and tax divided by finance costs for the same period.
- (6) Gearing ratio equals to total debt divided by total equity as of the end of the period.
- (7) On an annualized basis.

Current Ratio

Our current ratio was 0.50, 0.62, 0.74 and 0.67 as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively.

The increases from December 31, 2013 to December 31, 2014 and further to December 31, 2015 were primarily due to increases in (i) pledged deposits; (ii) loan receivables; and (iii) increase in our financial assets at fair value through profit or loss due to favorable stock market condition, partially offset by the increases in our trade and bills payables due to the increase in operational size of our piped gas supply business.

Return on equity

Our return on equity was 7.3%, 8.3% and 9.2% in 2013, 2014 and 2015 and 10.4% in the six months ended June 30, 2016 on an annualized basis.

The increase from 2013 to 2014 was primarily due to increase in profit which was in turn attributable to (i) increase in net investment income and gain as a result of the disposal of certain equity interest investments; and (ii) increase in gross profit from public utility operations, partially offset by decrease in other income and gain.

Increase from 2014 to 2015 was primarily due to increase in profit which was in turn primarily attributable to (i) increase in gross profit from public utility operations; and (ii) increase in other income and gain mainly as a result of partial disposal of equity interest in Dazhong Transportation Group.

Increase from 2015 to the six months ended June 30, 2016 on an annualized basis was primarily due to increase in profit which was in turn primarily attributable to increase in net investment income mainly as a result of our receipt of dividend from Chinese Culture Investment in the amount of RMB99.5 million.

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Net Profit Margin

Our net profit margin was 8.0%, 8.9%, 11.6% and 14.1% in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The changes of net profit margin were primarily attributable to changes in our net profit during the periods and in line with the changes in our return on equity.

Net Debt to Equity Ratio

Our net debt to equity ratio was 30.9%, 22.2%, 29.2% and 34.4% as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. The decrease from December 31, 2013 to December 31, 2014 was primarily due to increase in our total equity as a result of investment in our operational assets and the increase in the value of our company through prudent financial investments. The increases from December 31, 2014 to December 31, 2015 and further to June 30, 2016 were primarily due to the increases in our bank borrowings.

Interest Coverage Ratio

Our interest coverage ratio was 3.2, 3.4, 4.2 and 6.1 in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The increases in our interest coverage ratio during the Track Record Period were primarily attributable to the increases in our profit before interest and tax.

Gearing Ratio

Our gearing ratio was 51.3%, 51.1%, 52.0% and 62.7% as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively. The increase in our gearing ratio from December 31, 2015 to June 30, 2016 was primarily attributable to the increase in our short-term bank borrowings to fund our acquisition of shares in Suchuang Gas and Dazhong Transportation Group.

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon the Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. Assuming the Over-Allotment Option is not exercised and based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the Offer Price range), we expect that the total amount of listing related expense, including underwriting commission, would be approximately RMB110.0 million. We expect listing expenses excluding underwriting commission and incentive bonus would be approximately RMB54.5 million, of which RMB7.1 million will be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending December 31, 2016.

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OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2016, we had not entered into any off-balance sheet arrangement except as disclosed in this prospectus.

RELATED PARTY TRANSACTIONS

The table below sets forth details of our related party transactions with our related parties for the indicated periods:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Shanghai Gas Group					
Purchase of piped gas	2,342,591	2,392,130	2,462,266	1,382,463	1,450,222
Rental expenses	12,680	11,530	5,660	2,830	3,000
Gas hotline service expenses	3,500	3,800	4,000	1,900	–
Associates					
Interest income	469	4,827	4,827	2,413	2,413
Rental expenses	1,045	3,760	4,536	2,268	2,186
Subcontracting fee expenses	2,406	–	–	–	–
Shanghai Gas Group's affiliate					
Interest expenses	<u>3,421</u>	<u>5,404</u>	<u>14,336</u>	<u>7,210</u>	<u>5,373</u>

Shanghai Gas Group is a minority shareholder of our Company and our upstream piped gas supplier in Shanghai from which we procure all piped gas for our Shanghai piped gas supply operations. Shanghai Gas Group is also a 50% equity shareholder of Shanghai Dazhong Gas, a subsidiary of ours and the operating entity for piped gas supply business in Shanghai. Procurement cost we paid to Shanghai Gas Group was RMB2,342.6 million, RMB2,392.1 million, RMB2,462.3 million and RMB1,450.2 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. For more details of our piped gas procurement from Shanghai Gas Group, please refer to the section headed “Business — Our Public Utility Service Business — Piped Gas Supply Operations — Piped gas procurement”.

Shenergy Group Financial Company Limited, an affiliate company of Shanghai Gas Group, granted Shanghai Dazhong Gas certain installments of unsecured loans during the Track Record Period. The interest expenses we paid were RMB3.4 million, RMB5.4 million, RMB14.3 million and RMB5.4 million in 2013, 2014, 2015 and the six months ended June 30, 2016.

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We also rent office spaces from Shanghai Dazhong Building Co., Ltd. (上海大眾大廈有限責任公司) an affiliate company of Dazhong Transportation Group. The rental fee we paid was RMB1.0 million, RMB3.8 million, RMB4.5 million and RMB2.2 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively. The rental fee was determined by negotiation each year.

We granted a loan to Shenzhen Capital Group from which we generated interest income of RMB469,000, RMB4.8 million, RMB4.8 million and RMB2.4 million in 2013, 2014 and 2015 and the six months ended June 30, 2016. For more detail, please refer to “— Description of Selected Consolidated Statements of Financial Position Items — Interest in Associates — Our investment in Shenzhen Capital Group”.

Our Directors are of the view that each of the related party transactions was conducted in the ordinary course of business on normal commercial terms and on an arm’s length basis between the relevant parties, and would not distort our track record results or make our historical results not reflective of our future performance.

QUANTITATIVE DISCLOSURE OF FINANCIAL RISK

Exposure to credit, liquidity and currency risks arises in the normal course of our Group’s business. Our Group’s principal financial instruments mainly include cash and cash equivalents, pledged deposits, trade and bills receivables, and trade and bills payables, which arise directly from its operations. We have other financial assets and liabilities such as interest-bearing bank borrowings, amounts due from/to subsidiaries/associates, amounts due to customers for contract work, and deposits and other receivables, and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group’s operations.

The main risks arising from our financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. We do not hold or issue derivative financial instruments either for hedging or for trading purposes.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to interest-bearing bank loan and other borrowings. We do not use derivative financial instruments to hedge interest rate risk. With all other variable held constant, our profit after tax and equity is affected through the impact on floating rate borrowings, as follows:

	Increase/(decrease) on profit after tax and equity			
	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Increase by 25 basis points	4,154	4,251	5,696	6,365
Decrease by 25 basis points	(4,154)	(4,251)	(5,696)	(6,365)

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Foreign Currency Risk

Our businesses are located in Mainland China and the majority of transactions are conducted in RMB. Most of our assets and liabilities are denominated in RMB. We have not hedged foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 to a reasonably possible change in the RMB/US\$ and RMB/HK\$ exchange rates, with all other variables held constant, of our profit after tax and equity.

	Increase/(decrease) on profit after tax and equity			
	As of December 31,			As of June 30,
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB/US\$				
Strengthened 5%	(4,162)	(8,913)	(7,696)	(7,087)
Weakened 5%	4,162	8,913	7,696	7,087
	4,162	8,913	7,696	7,087
RMB/HK\$				
Strengthened 5%	(661)	(2,969)	(2,976)	(2,373)
Weakened 5%	661	2,969	2,976	2,373
	661	2,969	2,976	2,373

Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis; therefore, our exposure to bad debts is not significant.

The credit risk of our other financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk exist when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to our total credit exposure.

Liquidity risk

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade and bills receivables) and projected cash flows from operations.

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Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of our financial liabilities as at the end of each of the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, based on the contractual undiscounted payments, was as follows:

	On demand	Within 1 year	Within 2 to 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of December 31, 2013				
Interest-bearing bank borrowings	–	442,251	460,681	902,932
Trade and bills payables	–	956,465	–	956,465
Other payables	518,432	–	37,310	555,742
Corporate bonds payable	–	114,846	1,874,655	1,989,501
	<u>518,432</u>	<u>1,513,562</u>	<u>2,372,646</u>	<u>4,404,640</u>
As of December 31, 2014				
Interest-bearing bank borrowings	–	771,587	427,644	1,199,231
Trade and bills payables	–	1,377,159	–	1,377,159
Other payables	533,871	–	37,310	571,181
Corporate bonds payable	–	110,135	1,768,368	1,878,503
	<u>533,871</u>	<u>2,258,881</u>	<u>2,233,322</u>	<u>5,026,074</u>
As of December 31, 2015				
Interest-bearing bank borrowings	–	1,421,652	610,758	2,032,410
Trade and bills payables	–	1,111,455	–	1,111,455
Other payables	619,750	–	94,095	713,845
Corporate bonds payable	–	90,552	1,682,074	1,772,626
	<u>619,750</u>	<u>2,623,659</u>	<u>2,386,927</u>	<u>5,630,336</u>
As of June 30, 2016				
Interest-bearing bank borrowings	–	2,378,226	417,224	2,795,450
Trade and bills payables	–	1,475,674	–	1,475,674
Other payables	530,630	–	116,995	647,625
Corporate bonds payable	–	90,235	1,639,515	1,729,750
	<u>530,630</u>	<u>3,944,135</u>	<u>2,173,734</u>	<u>6,648,499</u>

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DIVIDEND

Our Directors are responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' General Meeting for approval. Whether we pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, cash dividends we receive from our subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Directors deem relevant.

NO MATERIAL ADVERSE CHANGES

Our Directors confirm that, since June 30, 2016 and up to the date of this prospectus, there has been no material adverse change in our financial and liquidity position or prospects, revenue or gross profit margin and no event has occurred that would materially affect the information shown in the Accountant's Report set out in Appendix IA to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For further details, please refer to the section headed “Business — Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,528.2 million (assuming an Offer Price of HK\$3.80 per H Share, being the mid-point of the Offer Price range stated in this prospectus) (equivalent of approximately RMB1,330.6 million), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering. Our Directors intend to apply the net proceeds from the Global Offering for the follow purposes:

- (i) approximately 35%, or HK\$534.9 million, will be used for investment in piped gas supply business, including the acquisition of equity interest in selected piped gas suppliers. As of the Latest Practicable Date, we did not have any specific acquisition or joint venture plans or targets and had not entered into any definitive agreement or engaged in any active discussion with any potential target. For more details, please refer to the section “Business — Our Strategies — Expand our geographic reach and build a nation-wide and overseas operation platform through organic growth and acquisition”.
- (ii) approximately 30%, or HK\$458.5 million, will be used for the expansion of our wastewater treatment operations, including expansion and renovation of existing plants and potential acquisition of new plants or operations in connection with the PPP reform program. For more details, please refer to the section “Business — Our Strategies — Develop our environment protection-related business”.
- (iii) approximately 25%, or HK\$382.1 million, will be used for investment in other public utility businesses. For more details, please refer to the section “Business — Our Strategies — Develop our environment protection-related business”.
- (iv) the remaining amount of approximately not more than 10% will be used to provide funding for our working capital and other general corporate purposes.

If the Offer Price is fixed at HK\$4.25 per H Share, being the high-end of the Offer Price range stated in this prospectus and assuming that the Over-allotment Option is not exercised, the net proceeds will be increased by approximately HK\$188.4 million. If the Offer Price is fixed at HK\$3.35 per H Share, being the low-end of the Offer Price range stated in this prospectus and assuming that the Over-allotment Option is not exercised, the net proceeds will be reduced by approximately HK\$188.4 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes accordingly.

FUTURE PLANS AND USE OF PROCEEDS

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK\$266.9 million (assuming an Offer Price of HK\$4.25 per H Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$238.6 million (assuming an Offer Price of HK\$3.80 per H Share, being the mid-point of the Offer Price range stated in this prospectus), and (iii) HK\$210.4 million (assuming an Offer Price of HK\$3.35 per H Share, being the low-end of the Offer Price range stated in this prospectus).

Additional net proceeds received due to the exercise of the Over-allotment Option will be used for the above purposes accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

To the extent that the net proceeds from the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, they will be placed in short term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments.

We will issue an appropriate announcement if there is any concrete plan in relation to our planned use of proceeds as described above, or any material change to the above proposed use of proceeds.

As of the Latest Practicable Date, we had not identified any potential acquisition targets or entered into any definitive agreement with any party to acquire any business or entity.

We estimate that the net proceeds from the sales of Sale Shares by the Selling Shareholders pursuant to the Global Offering (after deduction of estimated expenses payable by the Selling Shareholders in relation to the Global Offering), will be:

- approximately HK\$145.9 million, if the Over-allotment Option is not exercised, or approximately HK\$167.7 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$3.35, being the low-end of the proposed Offer Price range;
- approximately HK\$165.5 million, if the Over-allotment Option is not exercised, or approximately HK\$190.3 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$3.80, being the mid-point of the proposed Offer Price range; and

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$185.0 million, if the Over-allotment Option is not exercised, or approximately HK\$212.8 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$4.25, being the high-end of the proposed Offer Price range.

We would not receive any proceed from the sales of Sale Shares by the Selling Shareholders.

UNDERWRITING

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
Haitong International Securities Company Limited
China Everbright Securities (HK) Limited
CMB International Capital Limited
BOCI Asia Limited
China Merchants Securities (HK) Co., Limited
Sinomax Securities Limited
CSL Securities Limited
Alliance Capital Partners Limited

HONG KONG UNDERWRITING ARRANGEMENTS

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 47,894,000 Hong Kong Public Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be issued and sold pursuant to the Global Offering (including any additional H Shares which may be issued and/or sold pursuant to the exercise of the Over-allotment Option) as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Public Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

UNDERWRITING

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination with immediate effect by notice from the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and the Joint Sponsors if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any change or development involving a prospective change, or any event or series of events likely to result in a change or prospective change, in local, national, regional or international financial, political, military, industrial, economic, fiscal, regulatory, currency, credit or market conditions, equity securities or other financial markets (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, the inter-bank markets and credit markets) or currency exchange rate or controls (including, without limitation, a devaluation of the Hong Kong dollar or Renminbi against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or the Renminbi is linked to any foreign currency or currencies) in or affecting Hong Kong, the PRC, the United States, Japan, Singapore, the United Kingdom or the European Union (or any member thereof), or any other jurisdiction relevant to any member of the Group (together, the “**Relevant Jurisdictions**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, economic sanctions, strikes, labor disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, acts of God, epidemic, pandemic, outbreak or escalation of infectious disease, (including without limitation SARS, MERS, H5N1, H1N1, swine or avian influenza or such related/mutated forms), accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions, or without limiting the foregoing, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or act of terrorism (whether or not responsibility has been claimed) in or affecting any of the Relevant Jurisdictions; or
 - (iv) the imposition or declaration of (a) any moratorium, suspension or limitation (including without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in shares or securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the London Stock

UNDERWRITING

Exchange; (b) any moratorium, suspension or limitation (including without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of our Company listed or quoted on a stock exchange or an over-the-counter market or (c) any moratorium on banking activities in or affecting any of the Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearing services in the Relevant Jurisdictions; or

- (v) any (A) change or prospective change in foreign investment regulations, or (B) any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or on, any of the Relevant Jurisdictions; or
- (vii) any change or development or event involving a prospective change in the Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects, or any change in capital stock or long-term debt of our Company or any other member of the Group, or any loss or interference with the assets, operations or business of our Company or any other member of the Group, which (in any such case) is not set forth in this prospectus; or
- (viii) save as disclosed in this prospectus, a demand by any tax authority for payment for any tax liability for any member of the Group; or
- (ix) that any Director or chief financial officer of our Company named in this prospectus is removed or vacated from office,
- (x) any litigation or claim instigated, or any litigation or claim being threatened against any member of the Group; or
- (xi) any contravention by any member of the Group or any Director of the Listing Rules or applicable Laws; or
- (xii) any governmental authority or any political body or organisation in any Relevant Jurisdiction is commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xiii) a valid demand by any creditor for repayment or payment of any of the Company's indebtedness or those of any of its subsidiaries or in respect of which our Company or any of its subsidiaries is liable prior to its stated maturity; or

UNDERWRITING

- (xiv) other than with the approval of the Joint Representatives, the issue or requirement to issue by our Company of a supplemental prospectus (or any other documents used in connection with the Global Offering) pursuant to the Companies Ordinance or the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

- (xv) that (a) any certificate given by our Company or any of its respective officers to any of the Joint Representatives or Joint Bookrunners under or in connection with the Hong Kong Underwriting Agreement or the Global Offering is false or misleading in any respect or (b) any Director or any member of senior management as named in this prospectus is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

- (xvi) an order or petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

- (xvii) any change or prospective change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus,

and which, in any such case, individually or in aggregate, in the sole opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters): (1) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or (2) has or will or may have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any material part of this Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (3) has or will or may have a material adverse effect on the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (4) make, will or may make it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering, to market the Global Offering or the delivery of H Shares on the Closing Date; or (5) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

UNDERWRITING

- (b) any of the following shall have come to the notice of any of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters:
- (i) that any statement contained in any of this prospectus, the Formal Notice, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become untrue, incorrect or inaccurate in any material respect or misleading in any respect; or
 - (ii) that any estimate, forecast, expression of opinion, intention or expectation contained in any of this prospectus, the Formal Notice, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, unfair or misleading in any respect or based on untrue, dishonest or unreasonable assumptions with reference to the facts and circumstances then subsisting or given in bad faith; or
 - (iii) any matter has arisen or has been discovered which would, or might, had it arisen or been discovered immediately before this prospectus, the Formal Notice, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto), constitute a material omission therefrom; or
 - (iv) any of the warranties given by the warrantors in the Hong Kong Underwriting Agreement being untrue or incorrect in any material respect; or
 - (v) any event, act or omission which gives rise or is likely to give rise to any liability of our Company pursuant to the indemnities in the Hong Kong Underwriting Agreement; or
 - (vi) any material breach of any of the obligations of any party (other than the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters) to the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

UNDERWRITING

- (vii) any breach of any of the obligations of any party (other than the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters) to the Cornerstone Investment Agreement; or
- (viii) any material adverse change or development or any prospective material adverse change or development, in the condition (financial or otherwise) or in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations or performance of the Group as a whole; or
- (ix) our Company withdraws this prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or
- (x) any non-compliance of this prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or
- (xi) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the H Shares to be issued or sold (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xii) any prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or
- (xiii) any person (other than any of the Hong Kong Underwriters) has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, and/or opinions (as the case may be) and references of its name included in the form and context in which it respectively appears; or
- (xiv) that a material portion of the orders placed or confirmed in the book-building process have been withdrawn, terminated or cancelled, and such withdrawn, terminated or cancelled orders not having been covered by replacement orders.

UNDERWRITING

UNDERTAKINGS TO THE HONG KONG STOCK EXCHANGE PURSUANT TO THE HONG KONG LISTING RULES

Undertakings by Our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or for the circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules.

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertaking by Our Company

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them not to (except for the offer, allotment and issue of the Offer Shares pursuant to the Global Offering, including pursuant to any exercise of the Over-allotment Option), at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), without the prior written consent of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and the Joint Sponsors and unless in compliance with the requirements of the Hong Kong Listing Rules (and only after the consent of any relevant PRC authority (if so required) has been obtained):

- (a) allot, issue, offer, sell, contract to sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, pledge, grant or sell any option, warrant or right to subscribe for or purchase, contract to purchase, or create any interests or encumbrance in respect of, transfer or otherwise dispose of, directly or indirectly, any H Shares or any securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any H Shares); or
- (b) enter into a transaction or an arrangement (including, without limitation, a swap or other derivative transaction) that transfers, in whole or in part, any of the economic consequences of ownership of any H Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any H Shares); or

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- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii); or
- (d) offer or agree or announce any intention to do any of the foregoing,

in each case, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other equity securities of our Company, or in cash or otherwise (whether or not the issue of the H Shares or such other securities will be completed within the aforesaid period), provided that the foregoing restrictions shall not apply to (i) the issue of H Shares by our Company pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) or (ii) any encumbrance in respect of any A Shares of our Company.

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company entered into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that such transaction, agreement or, as the case may be, such announcement will not create a disorderly or false market in the securities of our Company.

Undertakings by our Shareholders

Shanghai Dazhong Business Management has undertaken to us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them that, without the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules (and only after the consent of any relevant PRC authority (if so required) has been obtained):

- (a) it will not, at any time during the First Six- Month Period, (i) sell, offer to sell, contract or agree to sell, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of, or agree to transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or such other securities, as applicable or any interest in any of the foregoing), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (a)(i) or (ii) above, or (iv) offer to or

UNDERWRITING

agree to or announce any intention to effect any transaction specified in paragraph (a)(i), (ii) or (iii) above, in each case, whether any of the transactions specified in paragraph (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of Shares or other securities will be completed within the First Six-Month Period);

- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(iii) above or offer to or agree to or contract to or publicly announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right or interest pursuant to such transaction, it will cease to be a substantial shareholder (as defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(iii) or offers to or agrees to or contracts to or publicly announces any intention to effect any such transaction, it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market in the securities of our Company.

INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that we (for ourselves and on behalf of the Selling Shareholders), will enter into the International Underwriting Agreement with the Joint Representatives and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally to purchase, or procure purchasers for, the International Offer Shares being offered pursuant to the International Offering.

We (for ourselves and on behalf of the Selling Shareholders), expect to grant the Over-allotment Option to the International Underwriters and the Joint Bookrunners, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) and the Joint Bookrunners, on or before Wednesday, December 28, 2016, being the 30th day from the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot, and the Selling Shareholders to sell, up to an aggregate of 71,841,000 H Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price to cover over-allocations, if any, in the International Offering.

UNDERWRITING

COMMISSION AND EXPENSES

The Hong Kong Underwriters will receive a gross commission of 2.5% and incentive fee (at our Company's discretion) of up to 1% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. Our Company may also in our sole discretion pay any one or more of the Hong Kong Underwriters an additional incentive fee of such amount determined by us.

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately RMB110.0 million in total (based on the Offer Price of HK\$3.80 per Offer Share and assuming the Over-allotment Option is not exercised). The Selling Shareholders will pay the SFC transaction levy and Hong Kong Stock Exchange trading fee in respect of the Sale Shares.

HONG KONG UNDERWRITERS' INTERESTS IN OUR COMPANY

Save as disclosed in this prospectus, save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

INDEPENDENCE OF THE JOINT SPONSORS

Haitong International Capital Limited has the following relationships with the Company:

- (i) the chairman and executive director of the Company, Mr. Yang Guoping, is one of the independent directors of HFT Investment Management Co., Ltd. (海富通基金管理有限公司) (the "**Fund Company**"), which is a 51% held subsidiary of Haitong Securities Co. Limited ("**Haitong Securities**"), the parent company of Haitong International Capital Limited; and
- (ii) Shenergy Group Company Limited, the beneficial owner of the entire equity interests in Shanghai Gas (Group) Co., Ltd, a connected person of the Company, held approximately 2.8% shareholding in Haitong Securities as at September 30, 2016.

UNDERWRITING

Despite the foregoing, Haitong International Capital Limited is independent because:

- (i) it has in place internal procedures to ascertain its independence before accepting appointments as sponsor and to ensure ongoing compliance with the requirements of independence under the Hong Kong Listing Rules;
- (ii) it is required and will discharge its duty with impartiality in accordance with the Hong Kong Listing Rules and the Code of Conduct for Persons Licensed by or Registered with the SFC. Similarly, Mr. Yang Guoping, as an independent director of the Fund Company, is required to discharge his duties with impartiality in accordance with relevant regulatory requirements in the PRC and is not involved in the management or daily operation of Haitong Securities;
- (iii) Shenergy Group Company Limited only holds insignificant shareholding of approximately 2.8% in Haitong Securities, it is not considered to have any significant influence over Haitong Securities;
- (iv) given that (a) Haitong Securities is a large scale securities company listed on the Shanghai Stock Exchange with diversified shareholders base and board composition, (b) Haitong International Securities Group Limited (a subsidiary of Haitong Securities and the holding company of Haitong International Capital Limited) itself is also a listed company on the Stock Exchange with board of directors, operations and management independent from Haitong Securities, the possibility that Shenergy Group Company Limited can exercise any undue influence or be perceived to be able to exercise any undue influence over Haitong International Capital Limited, through its interests in Haitong Securities is very remote.

Each of the Joint Sponsors satisfies the independence criteria set out in Rule 3A.07 of the Hong Kong Listing Rules.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for

UNDERWRITING

the lodging of applications under the Hong Kong Public Offering. Any market purchases of H Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be issued and/or sold under the Over-allotment Option, namely 71,841,000 H Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization and stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the H Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares; (v) selling or agreeing to sell any H Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (i) the Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the H Shares;
- (ii) there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;
- (iii) liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the H Shares;
- (iv) no stabilizing action can be taken to support the price of the H Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Wednesday, December 28, 2016, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;

UNDERWRITING

- (v) the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- (vi) stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

Our Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Stabilizing Manager may over-allocate up to and not more than an aggregate of 71,841,000 H Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises (subject to the Over-allotment Option):

- (i) the Hong Kong Public Offering of 47,894,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described in the section entitled “Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of initially 431,046,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below), outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S or any other available exemption from registration under the U.S. Securities Act.

Investors may apply for the H Shares under the Hong Kong Public Offering or apply for or indicate an interest for H Shares under the International Offering, but may not do both.

The H Shares to be offered under the Global Offering will represent approximately 16.50% of the enlarged issued share capital of our Company immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The number of the H Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in “Hong Kong Public Offering — Reallocation” below.

HONG KONG PUBLIC OFFERING

Number of H Shares initially offered

Our Company is initially offering 47,894,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of the H Shares initially available under the Global Offering. Subject to the re-allocation of H Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the Hong Kong Public Offering will represent approximately 1.65% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

STRUCTURE OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in “Conditions of the Hong Kong Public Offering” below.

Allocation

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Hong Kong Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of H Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 23,947,000 H Shares are liable to be rejected.

Reallocation

The allocation of the H Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of H Shares offered in the Global Offering if certain prescribed total demand levels

STRUCTURE OF THE GLOBAL OFFERING

are reached. The initial H Shares available for subscription under the Hong Kong Public Offering represents 10% of the total number of the H Shares initially available under the Global Offering. In the event of oversubscription under the Hong Kong Public Offering, the Joint Representatives shall apply a clawback mechanism following the closing of the application lists on the following basis:

- If the number of Hong Kong Public Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Hong Kong Public Offer Shares initially available for subscription under the Hong Kong Public Offering, then H Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of H Shares available under the Hong Kong Public Offering will be 143,682,000 H Shares, representing 30% of the H Shares initially available under the Global Offering.
- If the number of Hong Kong Public Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Hong Kong Public Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of H Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the H Shares available under the Hong Kong Public Offering will be 191,576,000 H Shares, representing 40% of the H Shares initially available under the Global Offering.
- If the number of Hong Kong Public Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Hong Kong Public Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of H Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the H Shares available under the Hong Kong Public Offering will be 239,470,000 H Shares, representing 50% of the H Shares initially available under the Global Offering.

In each case, the additional H Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of H Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, subject to the foregoing paragraph, the Joint Representatives may allocate H Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

STRUCTURE OF THE GLOBAL OFFERING

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any H Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated H Shares under the International Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$4.25 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each H Share. If the Offer Price, as finally determined in the manner described in "Pricing of the Global Offering" below, is less than the maximum price of HK\$4.25 per H Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled "How to Apply for Hong Kong Public Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of H Shares offered

The number of H Shares to be initially offered under the International Offering will be 431,046,000 H Shares, representing 90% of the Offer Shares under the Global Offering. Subject to reallocation as described above, the number of H Shares to be initially offered under the International Offering will represent approximately 14.85% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Offering Shares will be conditionally placed on behalf of our Company by the International Underwriters or through selling agents appointed by them. The International Offering will include selective marketing of H Shares to institutional and professional investors and other investors anticipated to have a sizable demand for such H Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

STRUCTURE OF THE GLOBAL OFFERING

Allocation of H Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the section entitled “Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its H Shares, after the listing of the H Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Representatives (on behalf of the Underwriters) may require any investor who has been offered H Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of H Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we and the Selling Shareholders will grant the Over-allotment Option exercisable by the Joint Representatives, on behalf of the International Underwriters, to purchase up to 71,841,000 additional H Shares, representing 15% of the number of H Shares initially available under the Global Offering. The Over-allotment Option may be exercised by the Joint Representatives, on behalf of the International Underwriters, at any time and from time to time within 30 days of the last day for lodging of applications under the Hong Kong Public Offering, to cover over-allocations in the International Offering, if any. The Joint Representatives may also cover such over-allocations by purchasing H Shares on the secondary market or by a combination of purchases on the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, a public announcement will be made.

THE SELLING SHAREHOLDERS

The Selling Shareholders are initially offering a total of 43,540,000 Sale Shares as part of the Global Offering. The Selling Shareholders may sell up to an aggregate of 50,071,000 Sale Shares if the Over-allotment Option is exercised in full.

Pursuant to a letter issued by the NSSF (*She Bao Ji Jin Fa* [2016] No. 68) on May 13, 2016, the NSSF instructed us to (i) arrange for the sale of the Sale Shares as part of the Global Offering, and (ii) remit the proceeds from the sale of the Sale Shares (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) to the account designated by the NSSF.

STRUCTURE OF THE GLOBAL OFFERING

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline on the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than any over-allotment option that may be granted. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over the counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time.

Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price;

STRUCTURE OF THE GLOBAL OFFERING

- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to any over-allotment option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Wednesday, December 28, 2016. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

PRICING OF THE GLOBAL OFFERING

Determining the Offer Price

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the H Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of H Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Pricing for the H Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Monday, November 28, 2016 (Hong Kong time), and in any event on or before Wednesday, November 30, 2016 (Hong Kong time), by agreement between the Joint Representatives (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) and the number of H Shares to be allocated under various offerings will be determined shortly thereafter.

Offer Price Range

The Offer Price will not be more than HK\$4.25 per H Share and is expected to be not less than HK\$3.35 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

Reduction in indicative Offer Price range and/or number of Offer Shares

The Joint Representatives, for themselves and on behalf of the Joint Bookrunners and the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of the Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.dzug.cn) an announcement/a supplemental prospectus (as appropriate) in connection with the reduction. Upon issue of such announcement/supplemental prospectus (as appropriate), the number of the Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Representatives (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of the Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such announcement/supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such announcement/supplemental prospectus (as appropriate)

STRUCTURE OF THE GLOBAL OFFERING

so published, the Offer Price, if agreed upon with our Company and the Joint Representatives, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives. In the event of a reduction in the number of the H Shares being offered under the Global Offering, the Joint Representatives may at their discretion reallocate the number of H Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of the H Shares in the Global Offering. The H Shares to be offered in the International Offering and the H Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives.

Announcement of Offer Price and basis of allocation

The Offer Price for Offer Shares under the Global Offering is expected to be announced on Friday, December 2, 2016. The indications of interest in the Global Offering, the results of applications and the basis of allotment of H Shares available under the Hong Kong Public Offering, are expected to be announced on Friday, December 2, 2016 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.dzug.cn).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is expected to be fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section entitled "Underwriting".

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS, established and operated by the HKSCC.

STRUCTURE OF THE GLOBAL OFFERING

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, December 5, 2016, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Monday, December 5, 2016. Our H Shares will be traded in board lots of 1,000 H Shares each and the stock code of our H Shares will be 1635.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the H Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee granting listing of, and permission to deal in, the H Shares being offered pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date;
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements; and
- (v) if, for any reason, the Offer Price is not agreed between our Company and the Joint Representatives (on behalf of the Underwriters) on or before Wednesday, November 30, 2016, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section entitled “How to Apply for Hong Kong Public Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the H Shares are expected to be issued on Friday, December 2, 2016 but will only become valid certificates of title at 8:00 a.m. on Monday, December 5, 2016 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled “Underwriting — Hong Kong Underwriting Arrangements — Hong Kong Public Offering — Grounds for Termination” has not been exercised.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If an application is made by a person under a power of attorney, the Joint Representatives may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Public Offer Shares.

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above;
- a connected person (as defined in the Hong Kong Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, November 23, 2016 till 12:00 noon on Monday, November 28, 2016 from:

any of the following offices of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Haitong International Securities Company Limited

22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

6/F, Wings Building
110–116 Queen's Road Central
Central
Hong Kong

Shop C, G/F, EIB Tower
4–6 Morrison Hill Road
Wan Chai
Hong Kong

Room 2302, 23/F
Olympia Plaza
255 King's Road
North Point
Hong Kong

5/F, May May Building
683–685 Nathan Road
Mong Kok
Hong Kong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Room 504, 5/F
Block 2, Silvercord
30 Canton Road
Tsim Sha Tsui
Hong Kong

Shop B-113, Podium Level 1
Nan Fung Plaza
8 Pui Shing Road
Tseung Kwan O
Hong Kong

Rooms 902–903, 9/F
Chau's Commercial Centre
284 Sha Tsui Road
Tsuen Wan
Hong Kong

Room 1101, Landmark North
39 Lung Sum Avenue
Sheung Shui
Hong Kong

Rooms 901, 903–904, 9/F
HSBC Building Yuen Long
150–160 Castle Peak road
Yuen Long
Hong Kong

35/F, Infinitus Plaza
199 Des Voeux Road Central
Central
Hong Kong

China Everbright Securities (HK) Limited

24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

CMB International Capital Limited

Units 1803-4
18/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
Central
Hong Kong

Sinomax Securities Limited

Unit 1601
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

CSL Securities Limited

Room 1406-12
14/F, Nan Fung Tower
88 Connaught Road Central
Central
Hong Kong

Alliance Capital Partners Limited

Room 1502-03A
15/F, Wing On House
71 Des Voeux Road Central
Central
Hong Kong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

any of the following branches of the receiving banks:

Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Shek Tong Tsui Branch	534 Queen's Road West Shek Tong Tsui
	Causeway Bay Branch	505 Hennessy Road Causeway Bay
Kowloon	Prince Edward Branch	774 Nathan Road
	Tsim Sha Tsui East Branch	Shop 3, LG/F, Hilton Towers, 96 Granville Road, Tsim Sha Tsui East
	Wong Tai Sin Branch	Shop G13 Wong Tai Sin Plaza Wong Tai Sin
	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza 68 Hoi Yuen Road Kwun Tong
New Territories	Citywalk Branch	Shop 65, G/F, Citywalk 1 Yeung Uk Road Tsuen Wan
	Yuen Long Branch	102–108 Castle Peak Road Yuen Long
	City One Sha Tin Branch	Shop Nos. 24–25 G/F, Fortune City One Plus No. 2 Ngan Shing Street Sha Tin

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Standard Chartered Bank (Hong Kong) Limited

	<u>Branch</u>	<u>Address</u>
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building 4–4A, Des Voeux Road Central, Central
	North Point Centre Branch	Shop G, G/F North Point Centre 284 King’s Road, North Point
Kowloon	Mongkok Branch	Shop B, G/F, 1/F & 2/F 617–623 Nathan Road Mongkok
	Lok Fu Shopping Centre Branch	Shop G201, G/F. Lok Fu Shopping Centre
New Territories	Maritime Square Branch	Shop 308E, Level 3 Maritime Square Tsing Yi
	Tseung Kwan O Branch	Shop G37–40 G/F, Hau Tak Shopping Centre East Wing Hau Tak Estate Tseung Kwan O

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, November 23, 2016 till 12:00 noon on Monday, November 28, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker’s cashier order attached and marked payable to “BANK OF CHINA (HONG KONG) NOMINEES LIMITED — SHANGHAI DAZHONG PUBLIC UTILITIES PUBLIC OFFER” for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Wednesday, November 23, 2016 — 9:00 a.m. to 5:00 p.m.
- Thursday, November 24, 2016 — 9:00 a.m. to 5:00 p.m.
- Friday, November 25, 2016 — 9:00 a.m. to 5:00 p.m.
- Saturday, November 26, 2016 — 9:00 a.m. to 1:00 p.m.
- Monday, November 28, 2016 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, November 28, 2016, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) **undertake** to execute all relevant documents and instruct and authorize the Company and/or the Joint Representatives (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) **agree** to comply with the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) **agree** that none of the Company, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

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- (viii) **agree** to disclose to the Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of the Company, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) **agree** that your application will be governed by the laws of Hong Kong;
- (xii) **represent, warrant** and **undertake** that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorize** the Company to place your name(s) or the name of HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the section headed "— Personal Collection" in this prospectus to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

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- (xvii) **understand** that the Company and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by anyone as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section may apply through the **White Form eIPO** service for the Hong Kong Public Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, November 23, 2016 until 11:30 a.m. on Monday, November 28, 2016 and the latest time for completing full payment of application monies in respect of such

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applications will be 12:00 noon on Monday, November 28, 2016 or such later time under the “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Shanghai Dazhong Public Utilities (Group) Co., Ltd.” **White Form eIPO** application submitted via the website www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Representatives and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

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- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, except as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our H Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Representatives, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of **electronic application instructions** to apply for Hong Kong Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

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- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders;
- authorize the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

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Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Public Offer Shares. Instructions for more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Wednesday, November 23, 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, November 24, 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, November 25, 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Monday, November 28, 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, November 23, 2016 until 12:00 noon on Monday, November 28, 2016 (24 hours daily, except on Saturday, November 26, 2016, Sunday, November 27, 2016 and the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, November 28, 2016, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving bankers, the Joint Global Coordinators, the Joint Sponsors, the Joint Representatives, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** service is also

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only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, November 28, 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit. All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Hong Kong Stock Exchange.

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“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares.

Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see “Structure of the Global Offering — Pricing of the Global Offering”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, November 28, 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

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If the application lists do not open and close on Monday, November 28, 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Friday, December 2, 2016 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Company’s website at **www.dzug.cn** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at **www.dzug.cn** and the Hong Kong Stock Exchange’s website at **www.hkexnews.hk** by no later than 8:00 a.m. on Friday, December 2, 2016;
- from the designated results of allocations website at **www.iporeresults.com.hk** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, December 2, 2016 to 12:00 midnight on Thursday, December 8, 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Friday, December 2, 2016 to Monday, December 5, 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, December 2, 2016 to Monday, December 5, 2016 at all the receiving banks’ designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$4.25 per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Friday, December 2, 2016.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number provided by you or the first named applicant (if you are joint applicants) may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Friday, December 2, 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, December 5, 2016 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, December 2, 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Friday, December 2, 2016, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Friday, December 2, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, December 2, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS Investor Participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, December 2, 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, December 2, 2016, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, December 2, 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, December 2, 2016 or on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Friday, December 2, 2016. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, December 2, 2016 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, December 2, 2016. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, December 2, 2016.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



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23 November 2016

The Directors
Shanghai Dazhong Public Utilities (Group) Co., Ltd.
China International Capital Corporation Hong Kong Securities Limited
Haitong International Capital Limited

Dear Sirs,

We set out below our report on the financial information of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) comprising the consolidated statements of financial position of the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016, and the statements of financial position of the Company as at 31 December 2013, 2014 and 2015 and 30 June 2016, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the “**Relevant Periods**”) and the notes thereto (hereinafter collectively referred to as the “**Financial Information**”), and the comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2015 (the “**Interim Comparative Financial Information**”), for inclusion in the prospectus of the Company dated 23 November 2016 (the “**Prospectus**”) in connection with the listing of the H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”).

The Company was established as a joint stock company with limited liability in the People's Republic of China (the “**PRC**”) on 1 January 1992. The registered office of the Company is located at No. 518, Shang Cheng Road, Pudong New District, Shanghai, the PRC.

The statutory consolidated financial statements of the Group prepared in accordance with Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC for each of the years ended 31 December 2013, 2014 and 2015 (the “**PRC Financial Statements**”) were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, certified public accountants registered in the PRC, in accordance with the China Auditing Standards issued by China Auditing Standards Board.

At the date of this report, the Company has direct or indirect interests in subsidiaries as set out in note 1 of Section II below. All companies comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the Company's subsidiaries were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in the PRC or other accounting principles applicable to those companies incorporated in other jurisdictions. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “**Directors**”) have prepared the consolidated financial statements of the Group (the “**Underlying Financial Statements**”) in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”) for each of the years ended 31 December 2013, 2014 and 2015 and each of the six months ended 30 June 2015 and 2016.

The Financial Information and the Interim Comparative Financial Information set out in this report have been prepared from the Underlying Financial Statements with no adjustment made thereon.

RESPONSIBILITY OF DIRECTORS

The Directors are responsible for the preparation of the Financial Information and the Interim Comparative Financial Information that give a true and fair view in accordance with IFRSs, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”), and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information and the Interim Comparative Financial Information that are free from material misstatement, whether due to fraud or error.

RESPONSIBILITY OF REPORTING ACCOUNTANT

Our responsibility is to form an independent opinion on the Financial Information based on our procedures and to report our opinion thereon to you.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and have examined the Financial Information and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

We have also performed a review of the Interim Comparative Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists principally of making enquiries of the Group’s management and applying analytical and other procedures to the Interim Comparative Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the financial position of the Group and of the Company as at 31 December 2013, 2014 and 2015 and 30 June 2016, and of the financial performance and cash flows of the Group for each of the Relevant Periods then ended.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE FINANCIAL INFORMATION

Based on our review, nothing has come to our attention that caused us to believe that the Interim Comparative Financial Information, for the purpose of the report, is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	7	3,929,849	4,212,557	4,616,595	2,605,343	2,544,025
Cost of sales		(3,461,070)	(3,691,806)	(3,886,987)	(2,128,292)	(2,149,361)
Gross profit		468,779	520,751	729,608	477,051	394,664
Other income and gains	8	50,048	48,789	45,820	20,453	12,954
Selling and distribution costs		(97,564)	(108,859)	(143,172)	(69,335)	(72,792)
Administrative expenses		(306,323)	(299,446)	(354,263)	(187,332)	(143,967)
Investment income and gains, net	10	44,446	162,968	72,081	40,650	106,930
Gain on disposal of a subsidiary	9	69,072	-	-	-	-
Gain on partial disposal of equity interests in an associate	26(a)(3)	-	-	216,386	216,386	-
Compensation income/(loss) in connection with disposal of a subsidiary in prior year	53	61,372	-	(80,000)	(80,000)	-
Finance costs	11	(167,827)	(171,156)	(176,629)	(86,574)	(83,304)
Share of results of associates	26	241,332	263,716	263,326	166,593	206,605
Profit before income tax expense	13	363,335	416,763	573,157	497,892	421,090
Income tax expense	16	(49,898)	(42,508)	(37,432)	(40,077)	(62,298)
Profit for the year/period		313,437	374,255	535,725	457,815	358,792
Other comprehensive income, net of tax:						
Items that may be reclassified subsequently to profit or loss:						
Share of other comprehensive income of associates		(29,244)	123,573	952,240	597,036	(18,483)
Change in fair value of available-for-sale financial assets		(96,883)	120,661	43,618	117,886	(62,337)
Recycle of changes in fair value of available-for-sale financial assets to profit or loss		40,000	9,330	-	-	-
Exchange differences on translating foreign operations		(1,040)	166	6,816	(125)	(2,260)
Items that will not be reclassified to profit or loss:						
Re-measurement gains/(losses) on defined benefit obligations (note 43)		4,178	(4,100)	(4,802)	(642)	3,026
Other comprehensive income for the year/period, net of tax		(82,989)	249,630	997,872	714,155	(80,054)
Total comprehensive income for the year/period		230,448	623,885	1,533,597	1,171,970	278,738

Notes	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit for the year/period attributable to:					
Owners of the Company	279,068	340,469	463,800	402,422	300,083
Non-controlling interests	34,369	33,786	71,925	55,393	58,709
	<u>313,437</u>	<u>374,255</u>	<u>535,725</u>	<u>457,815</u>	<u>358,792</u>
Total comprehensive income for the year/period attributable to:					
Owners of the Company	193,990	592,149	1,464,073	1,116,898	218,516
Non-controlling interests	36,458	31,736	69,524	55,072	60,222
	<u>230,448</u>	<u>623,885</u>	<u>1,533,597</u>	<u>1,171,970</u>	<u>278,738</u>
Earnings per share					
Basic and diluted	18 RMB0.11	RMB0.14	RMB0.19	RMB0.16	RMB0.12

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
Non-current assets					
Property, plant and equipment	20	3,782,065	4,246,044	4,390,369	4,348,017
Investment properties	21	71,545	69,346	67,147	66,048
Payments for leasehold land held for own use under operating leases	22	56,710	83,085	80,835	70,435
Goodwill	23	–	–	–	1,312
Intangible assets	24	184,412	181,968	183,542	390,412
Investments in associates	26	2,699,039	2,997,521	4,082,210	4,670,115
Amount due from an associate	26	60,335	60,335	–	–
Available-for-sale financial assets	27	765,227	786,372	833,729	882,652
Trade and bills receivables	28	643,683	593,349	544,600	519,784
Lease receivables	29	–	–	340,144	411,411
Amount due from grantor	30	719,551	686,306	653,216	635,792
Long-term prepayment		7,564	7,386	3,000	14,410
Deferred tax assets	31	5,173	5,902	19,618	22,064
Total non-current assets		8,995,304	9,717,614	11,198,410	12,032,452
Current assets					
Inventories	32	28,655	30,927	22,343	32,668
Amount due from an associate	26	–	–	60,335	60,335
Trade and bills receivables	28	329,305	294,198	329,474	299,252
Lease receivables	29	–	–	412,785	485,504
Loan receivables	33	9,900	183,879	200,811	202,709
Prepayments and other receivables	34	48,044	32,361	178,933	159,673
Amount due from grantor	30	31,570	33,244	33,090	33,969
Financial assets at fair value through profit or loss	35	181	47,155	106,333	64,373
Available-for-sale financial assets	27	30,000	28,000	85,000	60,000
Pledged deposits	36	4,619	35,302	3,397	158,000
Cash and cash equivalents	36	959,450	1,530,079	1,549,655	1,946,288
Total current assets		1,441,724	2,215,145	2,982,156	3,502,771
Current liabilities					
Borrowings	37	648,495	864,026	1,497,709	2,335,606
Trade and bills payables	39	956,465	1,377,159	1,111,455	1,475,674
Other payables	40	677,061	655,071	734,666	697,103
Deferred income	41	188,700	195,224	203,076	209,969
Amounts due to customers for contract work	42	361,980	469,173	436,613	454,011
Employee defined benefits	43	2,295	2,261	2,198	2,198
Current tax liabilities		21,158	22,733	22,522	60,788
Total current liabilities		2,856,154	3,585,647	4,008,239	5,235,349
Net current liabilities		(1,414,430)	(1,370,502)	(1,026,083)	(1,732,578)
Total assets less current liabilities		7,580,874	8,347,112	10,172,327	10,299,874

	Notes	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
Non-current liabilities					
Borrowings	37	187,050	260,026	438,710	385,432
Corporate bonds payable	38	1,582,360	1,586,208	1,590,465	1,592,680
Other payables	40	38,374	38,102	105,995	159,382
Deferred income	41	954,399	999,755	1,078,406	1,123,478
Employee defined benefits	43	31,508	35,280	39,819	36,627
Provision for restoration	44	14,569	17,152	19,486	21,498
Deferred tax liabilities	31	57,582	103,121	120,260	99,520
Total non-current liabilities		2,865,842	3,039,644	3,393,141	3,418,617
Net assets		4,715,032	5,307,468	6,779,186	6,881,257
Equity					
Share capital	45	1,644,870	1,644,870	2,467,305	2,467,305
Reserves		2,226,007	2,704,606	3,250,759	3,321,726
		3,870,877	4,349,476	5,718,064	5,789,031
Non-controlling interests		844,155	957,992	1,061,122	1,092,226
Total equity		4,715,032	5,307,468	6,779,186	6,881,257

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
Non-current assets					
Property, plant and equipment	20	2,390	596	571	532
Investment properties	21	46,418	45,065	43,712	43,036
Payments for leasehold land held for own use under operating leases	22	2,056	–	–	–
Intangible assets	24	111	64	286	247
Investments in subsidiaries	25	2,006,895	2,277,068	2,505,268	2,865,382
Investments in associates	26	2,465,937	2,730,064	3,687,285	3,697,869
Amount due from an associate	26	60,335	60,335	–	–
Available-for-sale financial assets	27	252,462	404,528	382,285	373,522
Trade receivables	28	111,136	79,383	47,630	31,753
Total non-current assets		4,947,740	5,597,103	6,667,037	7,012,341
Current assets					
Prepayments and other receivables	34	1,725	16,445	111,793	79,790
Amount due from an associate	26	–	–	60,335	60,335
Amounts due from subsidiaries	25	705,590	679,679	638,494	820,916
Financial assets at fair value through profit or loss	35	–	56	42	36
Pledged deposits	36	–	–	–	158,000
Cash and cash equivalents	36	109,612	279,655	372,617	313,488
Total current assets		816,927	975,835	1,183,281	1,432,565
Current liabilities					
Borrowings	37	410,000	512,000	668,900	1,059,200
Other payables	40	93,464	45,251	42,208	80,828
Amounts due to subsidiaries	25	95,771	399,962	358,917	617,890
Total current liabilities		599,235	957,213	1,070,025	1,757,918
Net current assets/(liabilities)		217,692	18,622	113,256	(325,353)
Total assets less current liabilities		5,165,432	5,615,725	6,780,293	6,686,988

	Notes	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
Non-current liabilities					
Corporate bonds payable	38	1,582,360	1,586,208	1,590,465	1,592,680
Deferred tax liabilities	31	42,169	87,708	82,108	63,584
Total non-current liabilities		1,624,529	1,673,916	1,672,573	1,656,264
Net assets		3,540,903	3,941,809	5,107,720	5,030,724
Equity					
Share capital	45	1,644,870	1,644,870	2,467,305	2,467,305
Reserves	46	1,896,033	2,296,939	2,640,415	2,563,419
Total equity		3,540,903	3,941,809	5,107,720	5,030,724

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Company									
	Share capital (note 45)	Capital reserve (note 46(a))	Statutory reserve (note 46(b))	Exchange reserve (note 46(c))	Investment revaluation reserve (note 46(d))	Other reserve (note 46(e))	Retained earnings (note 46(f))	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	1,644,870	203,911	548,968	-	176,667	406,844	809,556	3,790,816	696,244	4,487,060
Profit for the year	-	-	-	-	-	-	279,068	279,068	34,369	313,437
Other comprehensive income for the year:										
Share of other comprehensive income of associates	-	-	-	-	-	(29,244)	-	(29,244)	-	(29,244)
Change in fair value of available-for-sale financial assets	-	-	-	-	(96,883)	-	-	(96,883)	-	(96,883)
Recycle of changes in fair value of available-for-sale financial assets to profit or loss	-	-	-	-	40,000	-	-	40,000	-	40,000
Exchange differences on translating foreign operations	-	-	-	(1,040)	-	-	-	(1,040)	-	(1,040)
Re-measurement gains on defined benefit obligations (note 43)	-	-	-	-	-	2,089	-	2,089	2,089	4,178
Total comprehensive income for the year	-	-	-	(1,040)	(56,883)	(27,155)	279,068	193,990	36,458	230,448
Capital injection from non-controlling interests (note 25)	-	-	-	-	-	-	-	-	128,725	128,725
2012 final dividend paid	-	-	-	-	-	-	(115,402)	(115,402)	-	(115,402)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(17,272)	(17,272)
Appropriation to statutory reserve	-	-	25,283	-	-	-	(25,283)	-	-	-
Others	-	1,473	-	-	-	-	-	1,473	-	1,473
At 31 December 2013 and 1 January 2014	1,644,870	205,384	574,251	(1,040)	119,784	379,689	947,939	3,870,877	844,155	4,715,032
Profit for the year	-	-	-	-	-	-	340,469	340,469	33,786	374,255
Other comprehensive income for the year:										
Share of other comprehensive income of associates	-	-	-	-	-	123,573	-	123,573	-	123,573
Change in fair value of available-for-sale financial assets	-	-	-	-	120,661	-	-	120,661	-	120,661
Recycle of changes in fair value of available-for-sale financial assets to profit or loss	-	-	-	-	9,330	-	-	9,330	-	9,330
Exchange differences on translating foreign operations	-	-	-	166	-	-	-	166	-	166
Re-measurement losses on defined benefit obligations (note 43)	-	-	-	-	-	(2,050)	-	(2,050)	(2,050)	(4,100)
Total comprehensive income for the year	-	-	-	166	129,991	121,523	340,469	592,149	31,736	623,885

Equity attributable to owners of the Company

	Share capital	Capital reserve	Statutory reserve	Exchange reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total
	(note 45)	(note 46(a))	(note 46(b))	(note 46(c))	(note 46(d))	(note 46(e))	(note 46(f))		(RMB'000)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital injection from non-controlling interests (note 25)	-	-	-	-	-	-	-	-	107,500	107,500
2013 final dividend paid (note 17)	-	-	-	-	-	-	(115,469)	(115,469)	-	(115,469)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(27,191)	(27,191)
Transfer of reserve	-	-	-	-	-	63	(63)	-	-	-
Appropriation to statutory reserve	-	-	43,091	-	-	-	(43,091)	-	-	-
Others	-	1,919	-	-	-	-	-	1,919	1,792	3,711
At 31 December 2014 and 1 January 2015	1,644,870	207,303	617,342	(874)	249,775	501,275	1,129,785	4,349,476	957,992	5,307,468
Profit for the year	-	-	-	-	-	-	463,800	463,800	71,925	535,725
Other comprehensive income for the year:										
Share of other comprehensive income of associates	-	-	-	-	-	952,240	-	952,240	-	952,240
Change in fair value of available-for-sale financial assets	-	-	-	-	43,618	-	-	43,618	-	43,618
Exchange differences on translating foreign operations	-	-	-	6,816	-	-	-	6,816	-	6,816
Re-measurement gains on defined benefit obligations (note 43)	-	-	-	-	-	(2,401)	-	(2,401)	(2,401)	(4,802)
Total comprehensive income for the year	-	-	-	6,816	43,618	949,839	463,800	1,464,073	69,524	1,533,597
Issue of bonus shares (note 45)	822,435	-	-	-	-	-	(822,435)	-	-	-
Capital injection from non-controlling interests (note 25)	-	-	-	-	-	-	-	-	87,500	87,500
Change in equity interest in a subsidiary	-	(42,324)	-	-	-	-	-	(42,324)	(35,541)	(77,865)
2014 final dividend paid (note 17)	-	-	-	-	-	-	(57,422)	(57,422)	-	(57,422)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(18,353)	(18,353)
Transfer of reserve	-	-	-	-	-	133	(133)	-	-	-
Appropriation to statutory reserve	-	-	52,536	-	-	-	(52,536)	-	-	-
Others	-	4,261	-	-	-	-	-	4,261	-	4,261
At 31 December 2015	2,467,305	169,240	669,878	5,942	293,393	1,451,247	661,059	5,718,064	1,061,122	6,779,186

Equity attributable to owners of the Company

	Share capital (note 45)	Capital reserve (note 46(a))	Statutory reserve (note 46(b))	Exchange reserve (note 46(c))	Investment revaluation reserve (note 46(d))	Other reserve (note 46(e))	Retained earnings (note 46(f))	Non-controlling interests		
								Total	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
1 January 2016	2,467,305	169,240	669,878	5,942	293,393	1,451,247	661,059	5,718,064	1,061,122	6,779,186
Profit for the period	-	-	-	-	-	-	300,083	300,083	58,709	358,792
Other comprehensive income for the period:										
Share of other comprehensive income of associates	-	-	-	-	-	(18,483)	-	(18,483)	-	(18,483)
Change in fair value of available-for-sale financial assets	-	-	-	-	(62,337)	-	-	(62,337)	-	(62,337)
Exchange differences on translating foreign operations	-	-	-	(2,260)	-	-	-	(2,260)	-	(2,260)
Re-measurement losses on defined benefit obligations (note 43)	-	-	-	-	-	1,513	-	1,513	1,513	3,026
Total comprehensive income for the period	-	-	-	(2,260)	(62,337)	(16,970)	300,083	218,516	60,222	278,738
2015 final dividend paid (note 17)	-	-	-	-	-	-	(148,038)	(148,038)	-	(148,038)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(29,118)	(29,118)
Others	-	489	-	-	-	-	-	489	-	489
At 30 June 2016	2,467,305	169,729	669,878	3,682	231,056	1,434,277	813,104	5,789,031	1,092,226	6,881,257
At 1 January 2015	1,644,870	207,303	617,342	(874)	249,775	501,275	1,129,785	4,349,476	957,992	5,307,468
Profit for the period	-	-	-	-	-	-	402,422	402,422	55,393	457,815
Other comprehensive income for the period:										
Share of other comprehensive income of associates	-	-	-	-	-	597,036	-	597,036	-	597,036
Change in fair value of available-for-sale financial assets	-	-	-	-	117,886	-	-	117,886	-	117,886
Exchange differences on translating foreign operations	-	-	-	(125)	-	-	-	(125)	-	(125)
Re-measurement losses on defined benefit obligations (note 43)	-	-	-	-	-	(321)	-	(321)	(321)	(642)
Total comprehensive income for the period	-	-	-	(125)	117,886	596,715	402,422	1,116,898	55,072	1,171,970
Issue of bonus shares (note 45)	822,435	-	-	-	-	-	(822,435)	-	-	-
2014 final dividend paid (note 17)	-	-	-	-	-	-	(57,422)	(57,422)	-	(57,422)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(14,353)	(14,353)
Others	-	1,512	-	-	-	-	-	1,512	-	1,512
At 30 June 2015 (unaudited)	2,467,305	208,815	617,342	(999)	367,661	1,097,990	652,350	5,410,464	998,711	6,409,175

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax expense	363,335	416,763	573,157	497,892	421,090
Adjustments for:					
Finance costs	167,827	171,156	176,629	86,574	83,304
Share of results of associates	(241,332)	(263,716)	(263,326)	(166,593)	(206,605)
Amortisation on payments for leasehold land held for own use under operating leases	1,457	2,125	2,250	1,125	1,070
Amortisation on intangible assets	8,707	9,605	10,203	5,049	11,448
Depreciation of property, plant and equipment	265,165	291,053	312,261	151,536	163,157
Depreciation of investment properties	2,199	2,199	2,199	1,099	1,099
Impairment loss on property, plant and equipment	–	–	51,712	51,712	–
Impairment loss on trade receivables	2,319	449	1,351	902	413
Impairment loss on loan receivables	100	2,472	4,817	344	302
Impairment loss/(reversal on impairment loss) on prepayments and other receivables	182	814	1,921	1,075	(9,543)
Impairment loss/(reversal on impairment loss) on inventories	1,111	(13)	–	–	–
Loss/(gain) on disposal of property, plant and equipment	2,297	(2,666)	9,067	(45)	7,240
Gain on disposal of a subsidiary	(69,072)	–	–	–	–
Gain on disposal of associates	(6,322)	–	–	–	–
Gain on partial disposal of equity interests in an associate	–	–	(216,386)	(216,386)	–
Compensation (income)/loss in connection with disposal of a subsidiary in prior year	(61,372)	–	80,000	–	–
Loss/(gain) on disposal of financial assets at fair value through profit or loss – held for trading	164	(4,133)	(1,587)	(4,574)	4,018
(Gain)/loss on disposal of available-for-sale financial assets	(54,729)	(145,145)	(37,164)	(3,224)	5,453
Gain on disposal of government bonds	(786)	(2,477)	(3,505)	(2,758)	(1,076)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Changes in fair value of financial assets at fair value through profit or loss	(7)	(407)	21,784	(4,896)	12,611
Impairment loss on available-for-sale financial assets	40,000	9,330	–	–	–
Dividend income	(21,031)	(12,722)	(44,353)	(22,324)	(121,846)
Other financial income	(8,057)	(7,414)	(7,256)	(2,874)	(6,090)
Exchange (gain)/loss	(4)	713	(4,407)	(830)	(7,084)
Financial income from wastewater treatment income	(39,511)	(38,191)	(36,005)	(18,734)	(16,397)
Financial income from public infrastructure projects	(54,552)	(50,502)	(45,295)	(23,810)	(21,274)
Bank interest income	(10,738)	(12,417)	(17,319)	(7,575)	(6,543)
Other interest income	(443)	(4,554)	(4,554)	(2,277)	(2,277)
Others	–	29	1,517	(53)	19
Operating profit before working capital changes	286,907	362,351	567,711	320,355	312,489
Decrease/(increase) in inventories	27,720	(2,272)	8,584	(1,728)	(10,325)
(Increase)/decrease in trade and bills receivables	(43,230)	44,459	(40,040)	(12,032)	41,872
Decrease/(increase) in prepayments and other receivables	4,451	14,995	(21,667)	28,348	(33,689)
Increase/(decrease) in trade and bills payables	163,533	313,799	(179,920)	100,673	264,463
Increase/(decrease) in other payables	53,649	67,914	72,254	59,889	(165,089)
(Decrease)/increase in deferred income	(3,033)	6,524	7,852	30,019	51,829
Increase/(decrease) in amounts due to customers for contract work	84,778	107,193	(32,560)	(72,663)	17,398
Cash generated from operations	574,775	914,963	382,214	452,861	478,948
Bank interest income	10,738	12,417	17,319	7,575	6,543
Other interest income	443	4,554	4,554	2,277	2,277
Income taxes paid	(53,467)	(41,660)	(48,920)	(26,002)	(25,692)
Net cash flows generated from operating activities	532,489	890,274	355,167	436,711	462,076

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from investing activities					
Proceeds from disposals of investments and financial assets	223,697	859,556	919,799	406,108	124,367
Net payment in lease receivables	–	–	(655,129)	(71,292)	(117,780)
Net payment in loan receivables	(10,000)	(176,451)	(21,749)	(24,429)	(2,200)
(Increase)/decrease in pledged deposit	(109)	(30,683)	31,905	–	(154,603)
Proceeds from return on investment and financial assets	134,200	122,963	263,198	77,985	279,731
Proceeds from disposals of property, plant and equipment, intangible assets and long-term investments	522	2,944	604	218	170
Proceeds from disposals of subsidiaries	100,656	–	–	–	–
Proceeds from disposals of associates	46,001	–	–	–	–
Proceeds from repayment of amount due from grantor	174,039	161,291	166,581	64,753	76,986
(Payment)/receipt for wastewater treatment tender	–	–	(100,800)	–	100,800
Receipt/(payment) for compensation in connection with disposal of a subsidiary in prior year	61,372	–	(80,000)	–	–
Acquisition of property, plant and equipment and payments for leasehold land held for own use under operating leases	(467,635)	(674,836)	(558,637)	(321,242)	(194,649)
Acquisition of intangible assets	(19,744)	(7,161)	(11,777)	(5,280)	(31,028)
Acquisition of a subsidiary, net of cash acquired	–	–	–	–	42,178
Payments for acquisition of new investments	(380,757)	(617,386)	(856,152)	(417,833)	(760,528)
Net cash flows used in from investing activities	(137,758)	(359,763)	(902,157)	(291,012)	(636,556)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from financing activities					
Acquisition of new bank borrowings	1,164,912	1,678,112	3,475,090	1,047,647	1,845,886
Repayment of bank borrowings	(1,717,117)	(1,381,682)	(2,672,425)	(792,295)	(1,065,802)
Payments of interest expenses	(113,149)	(220,440)	(174,366)	(33,666)	(38,900)
Payments of final dividends	(115,402)	(115,469)	(57,422)	(57,422)	(148,038)
Dividends paid to non-controlling interests	(17,272)	(27,191)	(18,353)	(14,353)	(29,118)
Capital injection from non-controlling interests	128,725	107,500	87,500	–	–
Capital refund to non-controlling interests	–	–	(77,865)	–	–
Net cash flows (used in)/generated from financing activities	(669,303)	40,830	562,159	149,911	564,028
Net (decrease)/increase in cash and cash equivalents	(274,572)	571,341	15,169	295,610	389,548
Exchange differences on translating cash flows of foreign operations	(246)	(712)	4,407	831	7,085
Cash and cash equivalents at beginning of year/period	1,234,268	959,450	1,530,079	1,530,079	1,549,655
Cash and cash equivalents at end of year/period	<u>959,450</u>	<u>1,530,079</u>	<u>1,549,655</u>	<u>1,826,520</u>	<u>1,946,288</u>

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was established in the PRC on 1 January 1992 as a joint stock limited liability company. On 4 March 1993, the Company was listed on the Shanghai Stock Exchange. Its registered office and the principal place of business activities is located at No. 518, Shang Cheng Road, Pudong New District, Shanghai, the PRC and 1515 Zhongshan Road West, Shanghai, the PRC respectively.

The Company is principally engaged in investment holding during the Relevant Periods. The principal business activities of the Group during the Relevant Periods included piped gas supply, wastewater treatment, public infrastructure projects and financial services.

In the opinion of the Directors, the immediate holding company is Shanghai Dazhong Business Management Co., Ltd. (上海大眾企業管理有限公司), a company incorporated in the PRC, and the ultimate controlling shareholder of the Company is Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會).

As at the date of this report, the Company had direct and indirect interests in the following subsidiaries, all of which are limited liability companies, and the particulars of which are set out below:

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海大眾燃氣有限公司 ⁽¹⁾⁽²⁾ Shanghai Dazhong Gas Co., Ltd. ("Shanghai Dazhong Gas")	3 January 2001 PRC/PRC	Renminbi ("RMB") 800,000,000	50	–	Piped gas supply
上海市南燃氣發展有限公司 ⁽¹⁾⁽²⁾ Shanghai South Gas Development Co., Ltd. ("Shanghai South Gas")	18 April 2001 PRC/PRC	RMB8,500,000	–	100	Construction and installation of gas pipelines
上海煤氣物資供銷公司 ⁽¹⁾⁽²⁾ Shanghai Coalgas Material Supply Co., Ltd ("Shanghai Coalgas Supply")	14 January 1992 PRC/PRC	RMB2,000,000	–	100	Sale of gas related products
上海大眾燃氣投資發展有限公司 ⁽¹⁾⁽²⁾⁽⁵⁾ Shanghai Dazhong Gas Investment Developing Co., Ltd. ("Shanghai Dazhong Gas Investment")	14 August 2003 PRC/PRC	RMB107,100,000	93.37	–	Investment holdings
南通大眾燃氣有限公司 ⁽¹⁾⁽²⁾ Nantong Dazhong Gas Co., Ltd. ("Nantong Dazhong Gas")	11 December 2003 PRC/PRC	RMB280,000,000	–	50	Piped gas supply
南通大眾燃氣設備有限公司 ⁽¹⁾⁽²⁾ Nantong Dazhong Gas Equipment Co., Ltd. ("Nantong Gas Equipment")	28 April 2004 PRC/PRC	RMB1,000,000	–	80	Sale of gas related products
南通大眾燃氣安裝工程有限公司 ⁽¹⁾⁽²⁾ Nantong Dazhong Gas Installation Engineering Co., Ltd. ("Nantong Gas Installation")	25 May 1990 PRC/PRC	RMB20,000,000	–	100	Distribution and sale of piped natural gas
如東大眾燃氣有限公司 ⁽¹⁾⁽²⁾ Rudong Dazhong Gas Co., Ltd ("Rudong Dazhong Gas")	8 February 2006 PRC/PRC	RMB20,500,000	–	70	Distribution and sale of piped natural gas

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
南通開發區大眾燃氣有限公司 ⁽¹⁾⁽²⁾ Nantong Development Zone Dazhong Gas Co., Ltd. (" Nantong Development Zone Gas ")	5 February 2007 PRC/PRC	RMB50,000,000	–	100	Distribution and sale of piped natural gas
江蘇大眾水務集團有限公司 ⁽¹⁾⁽²⁾ Jiangsu Dazhong Water Group Co., Ltd. (" Jiangsu Dazhong Water ")	4 April 1995 PRC/PRC	RMB50,000,000	–	80	Wastewater treatment operations
上海大眾市政發展有限公司 ⁽¹⁾⁽²⁾ Shanghai Dazhong Municipal Development Co., Ltd.	15 September 2003 PRC/PRC	RMB120,000,000	100	–	Municipal road operations
杭州蕭山錢塘污水處理有限公司 ⁽¹⁾⁽²⁾ Hangzhou Xiaoshan Qiantang Sewage Co., Ltd.	11 February 2004 PRC/PRC	RMB190,050,000	90	–	Wastewater treatment operations
上海大眾嘉定污水處理有限公司 ⁽¹⁾⁽²⁾ Shanghai Dazhong Jiading Sewage Co., Ltd.	17 March 2006 PRC/PRC	RMB200,000,000	10	90	Wastewater treatment operations
沛縣源泉水務運營有限公司 ⁽¹⁾⁽²⁾ Peixian Fountainhead Water Operation Co., Ltd.	24 April 2007 PRC/PRC	RMB5,800,000	–	100	Wastewater treatment operations
連雲港西湖污水處理有限公司 ⁽¹⁾⁽²⁾ Lianyungang West Lake Sewage Co., Ltd.	27 December 2007 PRC/PRC	RMB5,800,000	–	100	Wastewater treatment operations
徐州大眾水務運營有限公司 ⁽¹⁾⁽²⁾ Xuzhou Dazhong Water Operation Co., Ltd.	12 April 2010 PRC/PRC	RMB38,000,000	–	100	Wastewater treatment operations
上海翔殷路隧道建設發展有限公司 ⁽¹⁾⁽²⁾ Shanghai Xiangyin Road Tunnel Construction Development Co., Ltd.	24 September 2003 PRC/PRC	RMB285,000,000	87.16	12.84	Public infrastructure projects
海南大眾海洋產業有限公司 ⁽¹⁾⁽²⁾ Hainan Dazhong Ocean Industry Co., Ltd.	4 June 1998 PRC/PRC	RMB30,000,000	100	–	Dormant
上海衛銘生化股份有限公司 ⁽¹⁾⁽²⁾ Shanghai Weiming Biochemistry Co., Ltd.	18 December 1992 PRC/PRC	RMB75,600,000	–	87.67	Dormant
大眾(香港)國際有限公司 ⁽³⁾ Dazhong (Hong Kong) International Corporation Limited (" Dazhong Hong Kong ")	10 November 2008 Hong Kong/Hong Kong	United States Dollar (" USD ") 10,500,000	95.24	4.76	Investment business
上海大眾集團資本股權投資有限公司 ⁽¹⁾⁽²⁾ Shanghai Dazhong Group Capital Equity Investment Co., Ltd.	22 April 2010 PRC/PRC	RMB500,000,000	99	1	Investment business

Name of company	Date and place of incorporation/ registration and place of operations	Registered and paid up capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
上海大眾交通商務有限公司 ⁽¹⁾⁽²⁾ Shanghai Dazhong Transportation Commerce Co., Ltd. (“ Shanghai Dazhong Transportation Commerce ”)	25 June 2008 PRC/PRC	RMB100,000,000	100	–	Payment services
上海閔行大眾小額貸款股份有限公司 ⁽¹⁾⁽²⁾ Shanghai Minhang Dazhong Micro-Credit Co., Ltd. (“ Minhang Dazhong Micro-Credit ”)	14 November 2013 PRC/PRC	RMB200,000,000	50	–	Micro-credit services
Fretum Construction & Engineering Enterprise Limited ⁽³⁾ (“ FCEEL ”)	17 September 2012 Hong Kong/Hong Kong	USD3,000,000	–	100	Investment business
Galaxy Building & Development Corporation Limited ⁽³⁾ (“ GBDCL ”)	17 September 2012 Hong Kong/Hong Kong	USD3,000,000	–	100	Investment business
Ace Best Investing Management Corporation Limited ⁽³⁾ (“ ABIMCL ”)	17 September 2012 Hong Kong/Hong Kong	USD5,000,000	–	100	Investment business
瓊海春盛旅遊發展有限公司 ⁽¹⁾⁽²⁾ Qionghai Chunsheng Travel Development Co., Ltd.	8 January 2014 PRC/PRC	RMB5,500,000	100	–	Dormant
上海大眾資產管理有限公司 ⁽¹⁾⁽²⁾⁽⁴⁾ Shanghai Dazhong Asset Management Co., Ltd.	8 August 2014 PRC/PRC	RMB500,000,000	100	–	Asset management
上海大眾融資租賃有限公司 ⁽¹⁾⁽²⁾⁽⁶⁾ Shanghai Dazhong Financial Leasing Co., Ltd. (“ Shanghai Dazhong Financial Leasing ”)	19 September 2014 PRC/PRC	RMB500,000,000	40	25	Financial leasing
上海大眾環境產業有限公司 ⁽¹⁾⁽²⁾ Shanghai Dazhong Environment Industry Co., Ltd.	14 July 2003 PRC/PRC	RMB252,000,000	88.97	11.03	Investment holdings
Interstellar Capital Investment Co., Limited ⁽³⁾	19 December 2014 Hong Kong/Hong Kong	USD10,000,000	–	100	Dormant
眾銀(國際)金融服務有限公司 Allpay (International) Finance Service Corporation Limited ⁽⁷⁾	8 April 2016 Hong Kong/Hong Kong	HKD25,000,000	–	100	Inactive
上海眾貢信息服務有限公司 Shanghai Zhonggong Information Service Co., Ltd. ⁽¹⁾⁽⁸⁾	12 July 2016 PRC/PRC	–	100	–	Inactive

Notes:

- The English names of the subsidiaries registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.

2. These entities are registered as limited liability companies under the laws of the PRC. The statutory financial statements for the years ended 31 December 2013, 2014 and 2015, prepared under PRC generally accepted accounting principles ("PRC GAAP") issued by the Ministry of Finance of the PRC, were audited by BDO China Shu Lun Pan Certified Public Accountants LLP.
3. These entities are incorporated as limited liability companies under the laws of Hong Kong. The statutory financial statements for the years ended 31 December 2013, 2014 and 2015, prepared under Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA, were audited by BDO Limited.
4. The registered capital of the subsidiary namely Shanghai Dazhong Asset Management Co., Ltd. is RMB500,000,000. As at 31 December 2014 and 2015 and 30 June 2016, the paid-in capital were RMB150,434,000, RMB278,634,000 and RMB500,000,000 respectively.
5. During the year ended 31 December 2015, capital contribution of RMB17,900,000 was refunded to non-controlling interests of Shanghai Dazhong Gas Investment and the Group's interest in Shanghai Dazhong Gas Investment was increased from 80% to 93.37% accordingly.
6. The registered capital of the subsidiary namely Shanghai Dazhong Financial Leasing is RMB500,000,000. As at 31 December 2014 and 2015 and 30 June 2016, the paid-in capital were RMB250,770,840, RMB500,000,000 and RMB500,000,000 respectively.
7. This entity is incorporated as a limited liability company under the laws of Hong Kong and no statutory financial statements are prepared up to the date of this report.
8. This entity is incorporated as limited liability company under the laws of the PRC. No statutory financial statements has been prepared under PRC GAAP issued by the Ministry of Finance of the PRC from its date of incorporation up to the date of this report. The registered capital of this company was RMB10,000,000, and there is no paid-in capital up to the date of this report.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

For the purpose of preparing and presenting the Financial Information and the Interim Comparative Financial Information, the Group has consistently applied IFRSs issued by the International Accounting Standards Board ("IASB") which are effective for the accounting period beginning on 1 January 2016 throughout the Relevant Periods.

As at the date of this report, the IASB has issued the following new and revised IFRSs, potentially relevant to the Group's operations which are not yet effective and have not been early adopted in preparing the Financial Information and the Interim Comparative Financial Information.

IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³
Amendments to IAS 7	Disclosure Initiative ¹
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Tax Losses ¹
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to IFRS 15	Clarification on Revenue from Contracts with Customers ²

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

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

Except as described below, the Directors do not anticipate that the application of the new and revised IFRSs will have material impact on the Group's financial performance and position and/or on the disclosures to the Group's Financial Information.

IFRS 9 — Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“**FVTOCI**”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“**FVTPL**”).

IFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in IAS 39 “Financial Instruments: Recognition and Measurements” and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

The Directors anticipate that the application of IFRS 9 in the future will have an impact on amounts reported in respect of the Group’s financial performance and financial assets (e.g. impairment on trade receivables and loan receivables) resulting from early provision of credit losses using the expected loss impairment model under IFRS 9 instead of incurred loss model under IAS 39. Currently, the Directors are in the midst of assessing the financial impact of the application of IFRS 9 and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

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

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Directors anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported on revenue as the timing of revenue recognition may be affected by the new standard, and more disclosures relating to revenue is required. Currently, the Directors are in the midst of assessing the financial impact of the application of IFRS 15 and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 16 — Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statement of both lessors and lessees. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirement of IAS 16 "Property, Plant and Equipment", while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

Total operating lease commitments of the Group in respect of land and buildings and office premises as at 30 June 2016 amounted to approximately RMB11,873,000. The Directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. BASIS OF PREPARATION**(a) Statement of compliance**

The Financial Information and the Interim Comparative Financial Information have been prepared in accordance with IFRSs issued by the IASB, applicable disclosures required by the Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinance.

(b) Basis of preparation

The Financial Information and the Interim Comparative Financial Information have been prepared under the historical cost basis except for available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair values as explained in the accounting policies set out below.

The Group had net current liabilities of approximately RMB1,414,430,000, RMB1,370,502,000, RMB1,026,083,000 and RMB1,732,578,000 as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively. The Group meets its day-to-day work capital requirements through its bank borrowings. Its forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current banking facilities. The Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future, and therefore are of the view that it is appropriate to adopt the going concern basis in preparing the Financial Information and the Interim Comparative Financial Information. Further information on the Group's bank borrowings is set out in note 37.

(c) Functional and presentation currency

The Financial Information and the Interim Comparative Financial Information are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated. Each entity within the Group maintains its books and records in its own functional currency. The functional currency of the Company is RMB.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Business combination and basis of consolidation**

The Financial Information and the Interim Comparative Financial Information comprise the financial statements of the Company and its subsidiaries for the Relevant Periods. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the Financial Information and the Interim Comparative Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (1) power over the investee, (2) exposure, or rights, to variable returns from the investee, and (3) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and other parties who hold voting rights;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Associates

An associate is an entity over which the Group/the Company has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group/the Company and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's/the Company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment at the end of that financial year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	8–40 years
Leasehold improvements	5–9 years
Motor vehicles	3–10 years
Gas pipeline and machinery	4–25 years
Equipment, furniture and fixtures	1–20 years

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis so owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is charged so as to write off the cost of investment property net of expected residual value over the estimated useful life using straight-line method. The useful life, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

(g) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(h) Leasing

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

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

(i) Intangible assets

Intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows.

Wastewater treatment concession rights	20–30 years
Computer software	5 years
Technical knowhow	10 years

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment of non-financial assets below).

(j) Financial instruments**(i) Financial assets**

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held of trading if they are acquired for the purpose of sale in the near future.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

A significant or prolonged decline in the fair value of the investment in an equity instrument below their cost is considered to be objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred.

The Group's financial liabilities at amortised costs including trade and other payables, borrowings, other monetary liabilities and corporate bonds issued by the Group are subsequently measured at amortised costs, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(k) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments. Contract costs comprise direct materials, costs of subcontracting, direct labour and an appropriate portion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense 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 recognised as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as "amounts due to customers for contract work".

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as "amounts due from customers for contract work".

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weight average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(m) Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC or their designees (the “Grantors”). The service concession arrangements consist of Build-Operate-Transfer (the “BOT”) arrangements and Transfer-Operate-Transfer (the “TOT”) arrangements. Under the BOT arrangements, the Group carries out construction work of the wastewater for the Grantors and receives in return a right to operate the service project concerned for a specified period of time (the “concession period”) in accordance with the pre-established conditions set by the Grantors, and the service project shall be transferred to the Grantors at nil or minimal consideration at the end of the concession period. A TOT arrangement is similar to a BOT arrangement, except that the Group pays consideration for the right to operate the sewage and reclaims water treatment or water distribution service that has been built.

Under IFRIC 12 “Service Concession Arrangements”, service concession arrangements are accounted for as follows if:

- (i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.

The Group's rights over the infrastructure

Infrastructure constructed by the Group under service concession arrangements is not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the infrastructure to the Group. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

Consideration received or receivable by the Group for the construction services

Consideration received or receivable by the Group for the construction services rendered under service concession arrangement are recognised at their fair value as a financial asset or an intangible asset.

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received from users of the public services and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for “Financial instruments” in note 4(j).

An intangible asset (concession intangible asset) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (concession intangible asset) is accounted for in accordance with the policy set out for “Intangible assets” in note 4(i).

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components are recognised initially at fair value of the consideration received or receivable.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for “Construction contracts” in note 4(k).

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in note 4(n).

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licence, that is (a) to maintain the wastewater treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the wastewater treatment plants are recognised and measured in accordance with the policy set out for "Provisions and contingent liabilities" in note 4(v).

(n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

- (i) Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.
- (ii) Revenue from sale of gas is recognised upon the transmission of gas to the customers, as determined based on the volume of gas transmitted and the applicable fixed tariff rates agreed with the respective customers.
- (iii) Revenue from construction contracts of gas pipeline construction is recognised by reference to the percentage of completion of the contract at the reporting date (note 4(k)).
- (iv) When the Group receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the Group must then use the item of property, plant and equipment to provide the customer with ongoing access to a supply of gas, the item of property, plant and equipment is recognised in accordance with IAS 16 "Property, Plant and Equipment" and the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) is recognised in accordance with IAS 18 "Revenue". When an ongoing service is identified as part of the arrangement, the revenue is recognised as gas connection income over ten years.
- (v) Revenue from wastewater treatment is recognised when services are rendered.
- (vi) Revenue from construction contracts of wastewater treatment construction is recognised by reference to the percentage of completion of the contracts at the reporting date (note 4(k)).
- (vii) Revenue from public infrastructure projects is recognised when services are rendered.
- (viii) Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.
- (ix) Interest income is recognised on a time-proportion basis using the effective interest method.
- (x) Financial income from wastewater treatment and public infrastructure projects is recognised as it accrues using the effective interest method.
- (xi) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).
- (xii) Finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

(o) Income taxes

Income taxes for the reporting periods comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill, if any, and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Government grants

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

(r) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- payments for leasehold land held for own use under operating leases;
- intangible assets with finite lives; and
- investments in subsidiaries and associates.

If the recoverable amount (i.e. the greater of fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset, 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.

(s) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of each reporting period in which the employees render the related service. Short term employee benefits are recognised in the period when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in the profit or loss when the services are rendered by the employees.

(iii) Defined benefit retirement plans

One of the subsidiaries of the Company provides supplementary pension subsidies to retired employees in the PRC. Such supplementary pension subsidies are considered as defined benefit plans. The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses is reflected immediately in the consolidated statements of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of reductions in future contributions to the plans. A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

(iv) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(t) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “**functional currency**”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

(u) Related parties

A party is considered to be related to the Group if:

- (i) the party is a person or a close member of that person's family and that person
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or of a parent of the Group; or
- (ii) the party is an entity where any of the following conditions applies:
 - (a) the entity and the Group are members of the same group;
 - (b) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (c) the entity and the Group are joint ventures of the same third party;
 - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (f) the entity is controlled or jointly controlled by a person identified in (i);
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (h) the entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's Financial Information and the Interim Comparative Financial Information requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(a) Judgements

Consolidation of entities in which the Group holds 50% voting rights

Control over Shanghai Dazhong Gas

The Company and Shanghai Gas (Group) Co., Ltd. ("**Shanghai Gas Group**") each holds a 50% equity interests in Shanghai Dazhong Gas and each party has the right to appoint three directors to the six-member board of directors. The legal representative and the chairman of the board of Shanghai Dazhong Gas, Mr. Yang Guoping, is appointed by the Group pursuant to the articles of association of Shanghai Dazhong Gas. In assessing whether the Group has power over Shanghai Dazhong Gas, the following considerations were taken into account:

Purpose and design of Shanghai Dazhong Gas: The Directors consider that the purpose and design since the establishment of Shanghai Dazhong Gas is for the Group to control it. Moreover, the management and operation system of Shanghai Dazhong Gas was set up by the Group and key management personnel overseeing the relevant activities which significantly affect the returns (i.e. the "Relevant Activities") are nominated and appointed by the Group. In addition, the Group has veto right to block any changes to the current system.

Relevant Activities of Shanghai Dazhong Gas and how decisions about the Relevant Activities are made: The Directors have determined that the Relevant Activities of Shanghai Dazhong Gas are: (a) design and construction of gas pipelines; (b) appointment, evaluation and remuneration of key management personnel; (c) budgeting and financial management; (d) management of supply and sales volume difference and major customer discount; and (e) strategic investments. On the other hand, given the strict regulation in the gas supplies industry, neither the Group nor Shanghai Gas Group, which was also the key gas supplier of the Group in Shanghai, was able to adjust the gas procurement and retail price or opt to suspend or terminate gas supply. Accordingly, the Directors conclude that supply and sale of piped gas (excluding management of supply and sale volume difference and major customer discount) are not the Relevant Activities. While it was not specified in the articles of association or Shareholders' Agreement of Shanghai Dazhong Gas, in practice, all important decisions relating to Relevant Activities were made at the executive management meetings led by the chairman of the board appointed by the Group.

The current ability of the Group to direct relevant activities: The Directors concluded that the Group has the current ability to direct the Relevant Activities of Shanghai Dazhong Gas as:

- the Group can nominate and appoint key management personnel of Shanghai Dazhong Gas, which includes the chairman and legal representative, secretary of the board, chief financial officer, chief economist and chief engineer. These key management personnel are those who collectively and individually have the ability to direct the Relevant Activities;
- the chairman appointed by the Group directs Shanghai Dazhong Gas on all significant transactions through his active leadership in the executive management meetings. The chairman is also the legal representative of Shanghai Dazhong Gas who is responsible for signing key contracts with external parties and making relevant payments; and
- the Group has majority voting rights at the remuneration committee which determines the remuneration of key management as an incentive to achieve operational and financial goals of Shanghai Dazhong Gas.

The Directors also consider that Shanghai Dazhong Gas does not rely on Shanghai Gas Group operationally or financially and Shanghai Gas Group cannot unilaterally approve any changes to the arrangement discussed above. Based on the above, the Directors consider that the Group is the party that has power over Shanghai Dazhong Gas.

Since the Group holds 50% equity interests in Shanghai Dazhong Gas, it is considered that the Group has sufficient exposures from variable returns of Shanghai Dazhong Gas and is able to use its power to affect the variable returns.

Based on all relevant facts and circumstances above, the Directors consider that the Company has the practical ability to direct the relevant activities of Shanghai Dazhong Gas, which demonstrates the Group has power over Shanghai Dazhong Gas, exposure to variable returns from Shanghai Dazhong Gas and ability to use its power to affect its variable returns throughout the Relevant Periods.

Control over Nantong Dazhong Gas

The Group and Nantong Gas General Group each holds 50% equity interests in Nantong Dazhong Gas and each has appointed three directors to the board of directors which currently comprises of six members. The Group has also appointed the chairman of the board, the vice general manager and the financial controller of Nantong Dazhong Gas. In addition, the procedural rules of the board of directors of Nantong Dazhong Gas specifically provides that the chairman of the board has (i) a casting vote in the event of a deadlock of board vote and (ii) a veto right on matters in daily operations.

Based on all relevant facts and circumstances above, the Directors consider that the Company has the practical ability to direct the relevant activities of Nantong Dazhong Gas, which demonstrates the Group has power over Nantong Dazhong Gas, exposure to variable returns from Nantong Dazhong Gas and ability to use its power to affect its variable returns throughout the Relevant Periods.

Control over Minhang Dazhong Micro-Credit

The Company is the largest shareholder of Minhang Dazhong Micro-Credit and controls its board of directors. The Company holds 50% equity interests in Minhang Dazhong Micro-Credit. The remaining 50% equity interests in Minhang Dazhong Micro-Credit is held as to 20% by Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司), a wholly-owned subsidiary of Dazhong Transportation Group, 10% by Songz Automobile Air Conditioning Co. Ltd. (上海加冷松芝汽車空調股份有限公司) (held as to 2.16% by the Company), 10% by Shanghai Tofflon Science & Technology Co., Ltd. (上海東富龍科技股份有限公司), an independent third party, and 10% by Shanghai Gumei Asset Management Co., Ltd. (上海古美資產經營管理有限公司), an independent third party. The Group appointed three directors to the board of directors of Minhang Dazhong Micro-Credit, which comprises of five members.

Based on all relevant facts and circumstances above, the Directors consider that the Company has the practical ability to direct the relevant activities of Minhong Dazhong Micro-Credit, which demonstrates the Group has power over Minhong Dazhong Micro-Credit, exposure to variable returns from Minhong Dazhong Micro-Credit and ability to use its power to affect its variable returns throughout the Relevant Periods.

Significant influence over investees

The Group has an investment in an entity, namely Shenzhen Capital Group (as defined in note 26(a)), in which it holds 13.93% of its equity interests. The Directors consider that the Group has a significant influence over this entity based on the following factors: (1) the Group has the right to appoint two directors out of a total of 13 directors of the board of directors of Shenzhen Capital Group and (2) these two directors also act as members of strategy and budget committee, remuneration and assessment committee and nomination committee of Shenzhen Capital Group. The above demonstrates that the Group actively participates in the entity's operating and financial policies, and thus investment in Shenzhen Capital Group is accounted for as an associate of the Group.

The Group also has investments in two entities, namely Shanghai Hangxin (as defined in note 26(a)) and Suchuang Gas (as defined in note 26(a)), in which the Group holds 16.13% and 19.76% of their equity interests respectively. The Directors consider that the Group has significant influence over Shanghai Hangxin based on the following factors: (1) the Group has appointed 1 director (also the chairman) to the boards of directors which consisting 9 executive directors; and (2) the appointed director actively participates in the policy-making process of the entity. Besides, the Directors consider that the Group has significant influence over Suchuang Gas based on the following factors: (1) the Group has appointed 1 director to the boards of directors which consisting 9 directors; and (2) the appointed director actively participates in the policy-making process of the entity.

The Group has investments in another four entities in which it holds 29%, 30%, 40% and 42.5% of their equity interests respectively. The Directors consider that the Group has no significant influence over these entities based on the following factors: (1) the Group is unable to obtain from these entities timely or adequate financial information required to apply the equity method and (2) the shareholder that holds the majority ownership of these entities operates without regard to the views of the Group. The Group therefore does not have the power to participate in these entities' operating and financial policies, and thus it accounts for these investments as available-for-sale financial assets.

(b) Estimation and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives of non-current assets

The Group depreciates the property, plant and equipment and investment properties and amortises the payments for leasehold land held for own use under operating leases and the intangible assets over their estimated useful lives in accordance with the accounting policies stated in notes 4(e), 4(f), 4(g) and 4(i) respectively. Such estimated useful lives reflect the Directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of these assets.

Impairment of non-financial assets (except for goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or corresponding cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of the Group's goodwill as at 30 June 2016 is RMB1,312,000 (2013, 2014, 2015: nil). There was no impairment loss on goodwill charged to profit and loss during the six months ended 30 June 2016.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

Construction contracts

As explained in accounting policies stated in note 4(k), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. However, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of each reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts record to date.

Estimation of the amortisation period of deferred income

The Group receives fees from customers in advance in exchange for the connection of their gas pipelines. These fees are received upfront and gradually amortised. The Group determines the estimated amortisation period of ten years for its revenue recognition. Any change in the estimation would significantly affect the timing of revenue recognition.

Retirement benefit obligations

The retirement benefit obligations are estimated based on a number of factors that are determined on an actuarial basis using a number of assumptions as disclosed in note 43. The accuracy of the estimate mainly depends on the extent of deviation between the actuarial assumptions and the actual conditions. Any changes in these assumptions will have an impact on the carrying amount of retirement benefit obligations.

IFRIC 12 "Service Concession Arrangements"

As explained in note 4(m), the Group recognises its BOT and TOT arrangements under IFRIC 12 "Service Concession Arrangements" because (i) the Grantors control and regulate the services that the Group must provide with the infrastructure at a pre-determined service charge in respect of these BOT and TOT arrangements; and (ii) upon expiry of concession right agreement, the infrastructure has to be transferred to the Grantors at nil or minimal consideration.

The fair value of the construction services under each of the BOT arrangements was calculated as the estimated total construction cost plus a profit margin. The profit margins were estimated based on prevailing market rates applicable to similar construction services rendered in similar locations at dates of agreements.

The Group recognises the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset under public-to-private concession arrangement. However, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is

necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, fair value of the construction services, expected future wastewater treatment volume of the relevant wastewater treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates are determined by the Group's management based on its experience and assessment on current and future market condition. Any change in the key assumptions, such as discount rate of 5.4% that the Group used, will result in change in the carrying value of the financial receivable.

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and impairment losses. The estimated useful life of an intangible asset, which is the key assumption in a service concession arrangement, is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period. Any change in the expected useful life would change the carrying amount of the intangible assets.

Estimation of assets restoration obligations

The Group has contractual obligations whereby it must fulfill as a condition of its licence that is to maintain the wastewater treatment plants it operates to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. Provision is recognised for the future restoration, which the amount recognised is the present value of the estimate future expenditure. The estimation of the future expenditure is based on current local conditions and requirements, including legal requirement, contractual requirement, technology, price level, etc. Changes in any of these estimates will impact the level of provision made.

Classification between finance lease and operating lease

Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) and operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor). Situations that would normally lead to a lease being classified as a finance lease include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable and, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

6. SEGMENT INFORMATION

The Group determines its operating segment based on the reports reviewed by the Group's chief operating decision maker, which are the Company's executive directors that are used to make strategic decisions.

The Group has six reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Piped gas supply;
- Wastewater treatment;
- Public infrastructure projects;
- Investments;
- Transportation services; and
- Financial services.

(a) Business segment

For the year ended 31 December 2013	Piped gas supply	Wastewater treatment	Public		Transportation services	Financial services	Segment total
			infrastructure projects	Investments			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	3,695,224	167,294	67,331	–	–	–	3,929,849
Inter-segment revenue	–	–	–	–	–	–	–
Reportable segment revenue	<u>3,695,224</u>	<u>167,294</u>	<u>67,331</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,929,849</u>
Reportable segment profit	<u>8,135</u>	<u>65,527</u>	<u>35,415</u>	<u>327,515</u>	<u>96,657</u>	<u>33</u>	<u>533,282</u>
Unallocated income/(expenses), net							(46,993)
Unallocated interest income							5,434
Unallocated interest expenses							(128,388)
Profit before income tax expense							<u>363,335</u>
Reportable segment assets	4,376,196	964,774	923,303	2,297,908	1,361,018	200,097	10,123,296
Unallocated cash and cash equivalents							170,205
Corporate assets*							143,527
Total assets							<u>10,437,028</u>

APPENDIX IA
ACCOUNTANT'S REPORT

For the year ended 31 December 2013	Piped gas supply	Wastewater treatment	Public infrastructure		Transportation services	Financial services	Segment total
			projects	Investments			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment							
liabilities	3,167,817	223,809	168,769	28,612	–	73	3,589,080
Unallocated borrowings							410,000
Corporate bond payables							1,582,360
Corporate liabilities [#]							140,556
Total liabilities							<u>5,721,996</u>
Other segment information:							
Share of results of associates	–	–	–	144,675	96,657	–	241,332
Interest income	4,436	410	347	238	–	316	5,747
Interest expenses	11,507	16,268	11,554	110	–	–	39,439
Investment income and gains, net	–	–	–	44,446	–	–	44,446
Gain on disposal of subsidiary	–	–	–	69,072	–	–	69,072
Gain on disposal of associates	–	–	–	6,322	–	–	6,322
Compensation income in connection with disposal of a subsidiary in prior year	–	–	–	61,372	–	–	61,372
Amortisation	520	9,487	–	–	–	–	10,007
Depreciation	257,375	6,938	242	–	–	–	264,555
Impairment loss on trade receivables	2,214	105	–	–	–	–	2,319
Impairment loss on loan receivables	–	–	–	–	–	100	100
Impairment loss/(reversal of impairment loss) on prepayments and other receivables	87	(37)	–	–	–	–	50
Impairment loss on inventories	1,111	–	–	–	–	–	1,111
Loss on disposal of property, plant and equipment	2,297	–	–	–	–	–	2,297
Investments in associates	–	–	–	1,338,021	1,361,018	–	2,699,039
Additions to non-current assets	474,851	21,191	–	–	–	429	496,471

* Corporate assets consisted of investment property, property, plant and equipment, amount due from an associate, intangible assets and prepayments and other receivables for the amounts approximately RMB71.5 million, RMB5.2 million, RMB60.3 million, RMB4.0 million and RMB2.5 million respectively.

Other unallocated corporate liabilities consisted of deferred tax liabilities, other payables, salary payables, dividend and interest payable for the amounts approximately RMB42.2 million, RMB21.6 million, RMB21.4 million and RMB55.2 million respectively.

† Shanghai Dazhong Gas and Nantong Dazhong Gas contributed 16% and 84% of piped gas supply segment profit respectively.

APPENDIX IA
ACCOUNTANT'S REPORT

For the year ended 31 December 2014	Piped gas supply	Wastewater treatment	Public			Transportation services	Financial services	Segment total
			infrastructure projects	Investments				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	3,960,609	166,371	63,289	–	–	22,288	4,212,557	
Inter-segment revenue	–	–	–	–	–	–	–	
Reportable segment revenue	<u>3,960,609</u>	<u>166,371</u>	<u>63,289</u>	<u>–</u>	<u>–</u>	<u>22,288</u>	<u>4,212,557</u>	
Reportable segment profit	<u>56,872</u>	<u>64,059</u>	<u>30,793</u>	<u>314,977</u>	<u>103,814</u>	<u>15,271</u>	<u>585,786</u>	
Unallocated income/(expenses), net							(35,882)	
Unallocated interest income							7,817	
Unallocated interest expenses							(140,958)	
Profit before income tax expense							<u>416,763</u>	
Reportable segment assets	5,089,533	1,085,808	876,048	2,350,759	1,564,096	475,724	11,441,968	
Unallocated cash and cash equivalents							337,031	
Corporate assets *							153,760	
Total assets							<u>11,932,759</u>	
Reportable segment liabilities	3,857,714	198,681	278,287	41,061	–	13,851	4,389,594	
Unallocated borrowings							512,000	
Corporate bond payables							1,586,208	
Corporate liabilities#							137,489	
Total liabilities							<u>6,625,291</u>	

For the year ended 31 December 2014	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other segment information:							
Share of results of associates	–	–	–	159,902	103,814	–	263,716
Interest income	6,890	377	584	841	–	462	9,154
Interest expenses	7,298	11,199	11,595	57	–	49	30,198
Investment income and gains, net	–	–	–	162,968	–	–	162,968
Amortisation	1,324	10,250	–	–	–	–	11,574
Depreciation	283,320	6,336	131	–	–	589	290,376
Impairment loss/(reversal of impairment loss) on trade receivables	593	(71)	(73)	–	–	–	449
Impairment loss on loan receivables	–	–	–	–	–	2,472	2,472
Impairment loss on prepayments and other receivables	626	(95)	–	–	–	7	538
Reversal of impairment loss on inventories	(13)	–	–	–	–	–	(13)
Gain on disposal of property, plant and equipment	(2,666)	–	–	–	–	–	(2,666)
Investments in associates	–	–	–	1,433,425	1,564,096	–	2,997,521
Additions to non-current assets	688,371	100,380	–	–	–	2,695	791,446

* Corporate assets consisted of investment property, property, plant and equipment, amount due from an associate, intangible assets and prepayments and other receivables for the amounts approximately RMB69.3 million, RMB3.3 million, RMB60.3 million, RMB4.1 million and RMB16.7 million respectively.

Other unallocated corporate liabilities consisted of deferred tax liabilities, other payables, salary payables, dividend and interest payable for the amounts approximately RMB87.7 million, RMB27.6 million, RMB20.4 million and RMB1.7 million respectively.

† Shanghai Dazhong Gas and Nantong Dazhong Gas contributed 19% and 81% of piped gas supply segment profit respectively.

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ACCOUNTANT'S REPORT

For the year ended 31 December 2015	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	4,359,700	148,256	58,112	–	–	50,527	4,616,595
Inter-segment revenue	–	–	–	–	–	–	–
Reportable segment revenue	<u>4,359,700</u>	<u>148,256</u>	<u>58,112</u>	<u>–</u>	<u>–</u>	<u>50,527</u>	<u>4,616,595</u>
Reportable segment profit	<u>55,610</u>	<u>50,745</u>	<u>27,181</u>	<u>202,360</u>	<u>338,686</u>	<u>37,029</u>	711,611
Unallocated income/(expenses), net							(15,561)
Unallocated interest income							10,720
Unallocated interest expenses							<u>(133,613)</u>
Profit before income tax expense							<u>573,157</u>
Reportable segment assets	4,924,640	1,063,327	885,320	3,251,309	2,076,060	1,405,077	13,605,733
Unallocated cash and cash equivalents							429,807
Corporate assets *							<u>145,026</u>
Total assets							<u>14,180,566</u>
Reportable segment liabilities	3,786,586	184,839	297,938	62,161	–	682,502	5,014,026
Unallocated borrowings							668,900
Corporate bond payables							1,590,465
Corporate liabilities#							<u>127,989</u>
Total liabilities							<u>7,401,380</u>

For the year ended 31 December 2015	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other segment information:							
Share of results of associates	–	–	–	141,026	122,300	–	263,326
Interest income	7,720	999	841	326	–	1,267	11,153
Interest expenses	16,440	6,094	13,822	265	–	6,395	43,016
Investment income and gains, net	–	–	–	72,081	–	–	72,081
Gain on partial disposal of equity interests in an associate	–	–	–	–	216,386	–	216,386
Amortisation	1,895	10,264	–	–	–	42	12,201
Depreciation	305,371	5,581	89	–	–	646	311,687
Impairment loss/(reversal of impairment loss) on trade receivables	1,367	(94)	78	–	–	–	1,351
Impairment loss on loan receivables	–	–	–	–	–	4,817	4,817
Impairment loss on prepayments and other receivables	1,834	87	–	–	–	–	1,921
Impairment loss on property, plant and equipment	51,712	–	–	–	–	–	51,712
Loss on disposal of property, plant and equipment	9,067	–	–	–	–	–	9,067
Compensation loss in connection with disposal of a subsidiary in prior year	–	–	–	80,000	–	–	80,000
Investments in associates	–	–	–	2,006,150	2,076,060	–	4,082,210
Additional to non-current assets	504,432	63,640	–	–	–	643	568,715

* Corporate assets consisted of investment property, property, plant and equipment, amount due from an associate, intangible assets and prepayments and other receivables for the amounts approximately RMB67.1 million, RMB3.9 million, RMB60.3 million, RMB4.1 million and RMB9.6 million respectively.

Other unallocated corporate liabilities consisted of deferred tax liabilities, other payables, salary payables, dividend and interest payable for the amounts approximately RMB82.1 million, RMB21.4 million, RMB22.8 million and RMB1.7 million respectively.

† Shanghai Dazhong Gas and Nantong Dazhong Gas contributed 33% and 67% of piped gas supply segment profit respectively.

APPENDIX IA
ACCOUNTANT'S REPORT

For the six months ended 30 June 2015	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
<i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Revenue from external customers	2,478,541	83,020	29,915	–	–	13,867	2,605,343
Inter-segment revenue	–	–	–	–	–	–	–
Reportable segment revenue	<u>2,478,541</u>	<u>83,020</u>	<u>29,915</u>	<u>–</u>	<u>–</u>	<u>13,867</u>	<u>2,605,343</u>
Reportable segment profit	<u>76,030</u>	<u>35,816</u>	<u>14,318</u>	<u>146,564</u>	<u>276,433</u>	<u>9,651</u>	<u>558,812</u>
Unallocated income/(expenses), net							1,536
Unallocated interest income							4,699
Unallocated interest expenses							<u>(67,155)</u>
Profit before income tax expense							<u>497,892</u>
Other segment information:							
Share of results of associates	–	–	–	106,546	60,047	–	166,593
Interest income	3,974	412	343	108	–	316	5,153
Interest expenses	8,253	3,005	7,459	85	–	617	19,419
Investment income and gains, net	–	–	–	40,650	–	–	40,650
Gain on partial disposal of equity interests in an associate	–	–	–	–	216,386	–	216,386
Amortisation	945	4,450	–	–	–	–	5,395
Depreciation	148,106	2,787	45	–	–	314	151,252
Impairment loss on trade receivables	681	–	219	–	–	2	902
Impairment loss on loan receivables	–	–	–	–	–	344	344
Impairment loss/(reverse of impairment loss) on prepayments and other receivables	940	38	–	–	–	(2)	976
Impairment loss on property, plant and equipment	51,712	–	–	–	–	–	51,712
Compensation loss in connection with disposal of a subsidiary in prior year	–	–	–	80,000	–	–	80,000

APPENDIX IA
ACCOUNTANT'S REPORT

For the six months ended 30 June 2016	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	2,379,022	94,068	28,687	–	–	42,248	2,544,025
Inter-segment revenue	–	–	–	–	–	–	–
Reportable segment revenue	<u>2,379,022</u>	<u>94,068</u>	<u>28,687</u>	<u>–</u>	<u>–</u>	<u>42,248</u>	<u>2,544,025</u>
Reportable segment profit	<u>98,211</u>	<u>42,174</u>	<u>14,764</u>	<u>228,084</u>	<u>64,095</u>	<u>20,518</u>	<u>467,846</u>
Unallocated income/(expenses), net							9,714
Unallocated interest income							4,129
Unallocated interest expenses							<u>(60,599)</u>
Profit before income tax expense							<u>421,090</u>
Reportable segment assets	5,463,830	1,080,021	770,571	3,446,837	2,393,782	1,570,562	14,725,603
Unallocated cash and cash equivalents							641,770
Corporate assets*							167,850
Total assets							<u>15,535,223</u>
Reportable segment liabilities	4,080,992	171,487	272,754	456,550	–	802,031	5,783,814
Unallocated borrowings							1,059,200
Corporate bond payables							1,592,680
Corporate liabilities#							218,272
Total liabilities							<u>8,653,966</u>

For the six months ended 30 June 2016	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other segment information:							
Share of results of associates	–	–	–	142,510	64,095	–	206,605
Interest income	3,169	223	446	353	–	500	4,691
Interest expenses	6,045	322	5,104	590	–	10,644	22,705
Investment income and gains, net	–	–	–	106,930	–	–	106,930
Amortisation	961	10,776	–	–	–	41	11,778
Depreciation	160,897	1,607	45	–	–	332	162,881
Impairment loss on trade receivables	104	204	148	–	–	–	456
Impairment loss on loan receivables	–	–	–	–	–	302	302
Impairment loss on prepayments and other receivables	956	152	–	–	–	9	1,117
Loss on disposal of property, plant and equipment	7,232	–	–	–	–	–	7,232
Investments in associates	–	–	–	2,276,333	2,393,782	–	4,670,115
Additions to non-current assets	309,189	88,085	–	–	–	–	397,274

* Corporate assets consisted of investment property, property, plant and equipment, amount due from an associate, intangible assets and prepayments and other receivables for the amounts approximately RMB66.0 million, RMB4.7 million, RMB60.3 million, RMB3.9 million and RMB32.9 million respectively.

Other unallocated corporate liabilities consisted of deferred tax liabilities, other payables, salary payables, dividend and interest payable, accounts payable and receipts in advance for the amounts approximately RMB63.6 million, RMB43.4 million, RMB17.7 million, RMB42.6 million, RMB0.6 million and RMB50.4 million respectively.

† Shanghai Dazhong Gas and Nantong Dazhong Gas contributed 67% and 33% of piped gas supply segment profit respectively.

(b) Geographic information

Geographical information is not presented since all of the Group's revenue from external customers is generated in the PRC. The non-current asset information is based on the location of the assets and excludes financial instruments and deferred tax assets. Nearly all of the non-current assets of the Group are located in the PRC, which is the Company's country of domicile.

(c) Information about major customers

The Group has a number of customers and there is no significant revenue derived from specific external customers during the Relevant Periods.

7. REVENUE

Revenue represents the net invoiced value of goods sold, after discounts and returns; the value of services rendered; an appropriate proportion of contract revenue of construction contracts; and interest income earned from provision of finance during the Relevant Periods.

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Piped gas supply:					
Sale of gas fuel	3,119,809	3,345,772	3,638,430	2,030,905	2,004,861
Gas pipeline construction income	246,937	293,283	394,199	273,058	194,290
Gas connection income (note 41)	204,317	203,984	207,343	102,976	108,331
Sale of related products	124,161	117,570	119,728	71,602	71,540
Wastewater treatment:					
Operations income	127,783	128,180	112,251	64,286	77,671
Financial income	39,511	38,191	36,005	18,734	16,397
Public infrastructure projects:					
Operations income	12,779	12,787	12,817	6,105	7,413
Financial income	54,552	50,502	45,295	23,810	21,274
Financial services:					
Interest income and related revenue	–	22,288	28,996	12,844	10,907
Financial leasing related income	–	–	21,531	1,023	31,341
	<u>3,929,849</u>	<u>4,212,557</u>	<u>4,616,595</u>	<u>2,605,343</u>	<u>2,544,025</u>

8. OTHER INCOME AND GAINS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Bank interest income	10,738	12,417	17,319	7,575	6,543
Other interest income	443	4,554	4,554	2,277	2,277
Government grants	19,832	14,825	12,700	2,839	4,568
(Loss)/gain on disposal of property, plant and equipment (note 20)	(2,297)	2,666	(9,067)	45	(7,240)
Gain on disposal of associates (note)	6,322	–	–	–	–
Rental income	10,996	10,490	11,461	5,723	5,141
Others	4,014	3,837	8,853	1,994	1,665
	<u>50,048</u>	<u>48,789</u>	<u>45,820</u>	<u>20,453</u>	<u>12,954</u>

Note: New China Fund Management Co., Ltd. and Zhejiang Public Equity Investment Management Ltd. were disposed by the Group in 2013 and the gain on disposal of these associates as included in other income.

9. DISPOSAL OF A SUBSIDIARY

On 31 July 2013, the Group disposed of a subsidiary, Hainan Dazhong Public Utilities Industry Development Co., Ltd. (海南大眾公用產業發展有限公司), which is engaged in real estate investment business. The net assets as at the date of disposal were as follows:

	31 July 2013	
	RMB'000	RMB'000
Property, plant and equipment	18,854	
Trade and other receivables	12,730	
Cash and cash equivalents	14	
		31,598
Gain on disposal of a subsidiary		69,072
Total consideration		<u>100,670</u>
Satisfied by:		
Cash		<u>100,670</u>
Net cash inflow arising on disposal:		
Cash consideration	100,670	
Cash and cash equivalents disposed of	(14)	
		<u>100,656</u>

10. INVESTMENT INCOME AND GAINS, NET

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Gain/(loss) on disposal of financial assets, net:					
– Financial assets at fair value through profit or loss – held for trading	(164)	4,133	1,587	4,574	(4,018)
– Available-for-sale financial assets	54,729	145,145	37,164	3,224	(5,453)
– Government bonds	786	2,477	3,505	2,758	1,076
	55,351	151,755	42,256	10,556	(8,395)
Change in fair value of financial assets at fair value through profit or loss	7	407	(21,784)	4,896	(12,611)
Impairment loss on available-for-sale financial assets	(40,000)	(9,330)	–	–	–
Dividend income	21,031	12,722	44,353	22,324	121,846
Other financial income	8,057	7,414	7,256	2,874	6,090
	44,446	162,968	72,081	40,650	106,930

11. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Interest on bank borrowings and corporate bonds	169,844	171,199	179,962	88,394	85,151
Less: Amounts capitalised (note)	(2,017)	(43)	(3,333)	(1,820)	(1,847)
	167,827	171,156	176,629	86,574	83,304

Note: Borrowing costs capitalised during the years arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.06%, 5.84%, 5.84% 5.84% and 4.68% to expenditure on qualifying assets for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 respectively.

12. EMPLOYEE COMPENSATION COSTS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wage, salaries and allowances	298,817	292,840	307,949	135,335	159,112
Retirement benefit scheme contribution	82,180	83,136	86,631	42,469	43,372
Other benefits	63,630	56,234	58,674	30,379	29,930
	<u>444,627</u>	<u>432,210</u>	<u>453,254</u>	<u>208,183</u>	<u>232,414</u>

13. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Inventories recognised as expense	2,710,495	2,858,247	2,913,209	1,628,802	1,675,583
Amortisation on payments for leasehold land held for own use under operating leases	1,457	2,125	2,250	1,125	1,070
Amortisation on intangible assets (included in administrative expenses and cost of sales)	8,707	9,605	10,203	5,049	11,448
Auditor's remuneration	1,450	1,550	1,550	–	–
Depreciation of property, plant and equipment	265,165	291,053	312,261	151,536	163,157
Depreciation of investment properties	2,199	2,199	2,199	1,099	1,099
Impairment loss on property, plant and equipment	–	–	51,712	51,712	–
Impairment loss on trade receivables	2,319	449	1,351	902	413
Impairment loss on loan receivables	100	2,472	4,817	344	302
Impairment loss/(reversal on impairment loss) on prepayments and other receivables	182	814	1,921	1,075	(9,543)
Impairment loss/(reversal on impairment loss) on inventories	1,111	(13)	–	–	–
Operating lease rental expenses in respect of buildings	14,262	16,362	11,316	5,628	5,758
	<u>14,262</u>	<u>16,362</u>	<u>11,316</u>	<u>5,628</u>	<u>5,758</u>

14. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the Relevant Periods is disclosed as follows:

For the year ended 31 December 2013	Fees	Salaries, allowances and benefits in kind	Retirement benefit plans contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Yang Guoping	–	3,720	187	3,907
Zhong Jinxing	–	1,843	146	1,989
Chen Jingfeng	–	2,303	144	2,447
Yang Jicai	–	1,242	136	1,378
Li Songhua	–	–	–	–
Zhuang Ziguo	–	928	–	928
Independent non-executive directors:				
Cai Jianmin	80	–	–	80
Lu Hongbing	80	–	–	80
Jin Xin	80	–	–	80
Supervisors:				
Cao Yongqin	–	–	–	–
Zhao Siyuan	–	–	–	–
Yu Min	–	1,673	156	1,829
	240	11,709	769	12,718
For the year ended 31 December 2014				
	Fees	Salaries, allowances and benefits in kind	Retirement benefit plans contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Yang Guoping	–	1,730	217	1,947
Zhong Jinxing	–	1,592	176	1,768
Chen Jingfeng	–	2,030	170	2,200
Yang Jicai	–	1,103	161	1,264
Li Songhua	–	–	–	–
Zhuang Jianhao (note (a))	–	560	–	560
Zhuang Ziguo (note (b))	–	260	–	260
Independent non-executive directors:				
Cai Jianmin	80	–	–	80
Lu Hongbing (note (c))	80	–	–	80
Jin Xin (note (d))	80	–	–	80
Jiang Guofang (note (a))	–	–	–	–
Yan Xuehai (note (a))	–	–	–	–
Supervisors:				
Cao Yongqin	–	–	–	–
Zhao Siyuan	–	–	–	–
Yu Min	–	1,597	187	1,784
	240	8,872	911	10,023

For the year ended 31 December 2015	Salaries, allowances and benefits in kind			Retirement benefit plans contributions	Total
	Fees				
	RMB'000	RMB'000	RMB'000	RMB'000	
Executive directors:					
Yang Gaoping	–	2,300	268		2,568
Zhong Jinxing	–	1,833	215		2,048
Chen Jingfeng (note (e))	–	1,592	–		1,592
Liang Jiawei (note (f))	–	1,248	112		1,360
Yu Min (note (f))	–	1,211	113		1,324
Yang Jicai	–	1,341	200		1,541
Li Songhua	–	–	–		–
Zhuang Jianhao	–	1,496	–		1,496
Independent non-executive directors:					
Cai Jianmin	–	–	–		–
Jiang Guofang	80	–	–		80
Yan Xuehai	80	–	–		80
Yao Chofai Andrew (note (f))	–	–	–		–
Supervisors:					
Cao Yongqin	–	–	–		–
Zhao Siyuan	–	–	–		–
Yang Weibiao (note (f))	–	482	65		547
Yu Min (note (g))	–	772	113		885
	160	12,275	1,086		13,521

For the six months ended 30 June 2015 (Unaudited)	Salaries, allowances and benefits in kind			Retirement benefit plans contributions	Total
	Fees				
	RMB'000	RMB'000	RMB'000	RMB'000	
Executive directors:					
Yang Gaoping	–	1,800	108		1,908
Zhong Jinxing	–	801	88		889
Chen Jingfeng (note (e))	–	1,592	–		1,592
Yang Jicai	–	617	80		697
Li Songhua	–	–	–		–
Zhuang Jianhao	–	458	–		458
Independent non-executive directors:					
Cai Jianmin	–	–	–		–
Jiang Guofang	80	–	–		80
Yan Xuehai	80	–	–		80
Supervisors:					
Cao Yongqin	–	–	–		–
Zhao Siyuan	–	–	–		–
Yu Min	–	772	93		865
	160	6,040	369		6,569

For the six months ended 30 June 2016	Fees	Salaries, allowances and benefits in kind	Retirement benefit plans contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:				
Yang Guoping	–	3,520	134	3,654
Zhong Jinxing	–	1,776	108	1,884
Liang Jiawei	–	2,348	112	2,460
Yu Min	–	2,016	113	2,129
Yang Jicai	–	1,410	100	1,510
Li Songhua	–	–	–	–
Zhuang Jianhao	–	528	–	528
Independent non-executive directors:				
Cai Jian Min	–	–	–	–
Jiang Guofang	–	–	–	–
Yan Xuehai	100	–	–	100
Yao Chofai Andrew	100	–	–	100
Supervisors:				
Cao Yongqin	100	–	–	100
Zhao Siyuan	–	–	–	–
Yang Weibiao	–	585	62	647
	<u>300</u>	<u>12,183</u>	<u>629</u>	<u>13,112</u>

Notes:

- (a) Appointed in April 2014
- (b) Resigned in April 2014
- (c) Resigned in March 2014
- (d) Resigned in May 2015
- (e) Resigned in June 2015
- (f) Appointed in July 2015
- (g) Resigned in July 2015

15. FIVE HIGHEST PAID INDIVIDUALS

Of the five highest paid individuals of the Group during the Relevant Periods, three of them are Directors for each of the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, and five of them are Directors for the year ended 31 December 2015 and the six months ended 30 June 2016. Details of the remuneration of the remaining two individuals for each of the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015, who are neither a director nor a supervisor of the Company are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and other benefits	3,246	3,115	–	1,579	–
Contributions to retirement benefits schemes	277	331	–	165	–
	<u>3,523</u>	<u>3,446</u>	<u>–</u>	<u>1,744</u>	<u>–</u>

The number of non-director and non-supervisor whose remuneration fell within the following band is as follow:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	Number of individuals	Number of individuals	Number of individuals	Number of individuals (Unaudited)	Number of individuals
Nil to HK\$1,000,000	–	–	–	2	–
HK\$1,000,001 to HK\$1,500,000	–	–	–	–	–
HK\$1,500,001 to HK\$2,000,000	–	–	–	–	–
HK\$2,000,001 to HK\$2,500,000	2	2	–	–	–
	<u>2</u>	<u>2</u>	<u>–</u>	<u>2</u>	<u>–</u>

During the Relevant Periods, no emoluments were paid by the Group to any of the directors, supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the directors waived emoluments during the Relevant Periods.

16. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
PRC enterprise income tax					
– tax for the year/period	48,270	41,972	44,966	41,970	63,834
– under-provision in respect of prior years	2,667	314	1,635	856	124
Hong Kong profits tax					
– tax for the year/period	–	951	–	1,400	–
Deferred tax (note 31)	(1,039)	(729)	(9,169)	(4,149)	(1,660)
Income tax expense	<u>49,898</u>	<u>42,508</u>	<u>37,432</u>	<u>40,077</u>	<u>62,298</u>

Profits of subsidiaries established in the PRC are subject to PRC enterprise income tax based on the statutory rate of 25% during the Relevant Periods.

Profits of subsidiaries established in Hong Kong are subject to Hong Kong Profits tax at the statutory rate of 16.5% during the Relevant Periods.

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

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax expense	363,335	416,763	573,157	497,892	421,090
Tax calculated at the PRC statutory rate of 25%	90,834	104,191	143,289	124,473	105,273
Effect of non-taxable income	(27,899)	(5,009)	(30,574)	(8,249)	(5,073)
Effect of non-deductible expenses	4,506	5,606	2,285	2,940	11,678
Tax effect of share of results of associates	(60,333)	(65,929)	(65,831)	(41,648)	(51,651)
Utilisation of tax losses previously not recognised	(974)	(6,063)	(26,478)	(54,180)	(9,733)
Tax effect of tax losses not recognised	32,840	9,056	2,039	1,448	9,775
Tax effect on changes on fair value of financial assets, impairment loss on assets and timing difference on employee benefits	12,845	2,559	12,852	16,093	2,675
Effect of tax exemptions granted to subsidiaries (note)	(4,588)	(1,727)	(1,785)	(935)	(770)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	(490)	–	(721)	–
Under-provision in respect of prior years	2,667	314	1,635	856	124
Income tax expense	49,898	42,508	37,432	40,077	62,298

Note:

According to relevant PRC Enterprise Income Tax Law, a number of the PRC subsidiaries of the Group are qualified and approved to enjoy the tax preferential policy of “Three-year exemption and three-year 50% reduction” or of “Two-year exemption and three-year 50% reduction” during the Relevant Periods as shown below:

1. Shanghai Dazhong Jiading Sewage Co., Ltd. was approved by the Shanghai Jiading District National Tax Authority to be fully exempted from enterprise income tax for the years from 2008 to 2010 and 50% reduction for the years from 2011 to 2013.
2. Xuzhou Fountainhead Sewage Co., Ltd. was approved by the Xuzhou Jiawang District National Tax Authority to be fully exempted from enterprise income tax for the years from 2009 to 2010 and 50% reduction for the years from 2011 to 2013.
3. Lianyungang West Lake Sewage Co., Ltd. was approved by the Jiangsu Provincial Donghai County National Tax Authority to be fully exempted from enterprise income tax for the years from 2008 to 2010 and 50% reduction for the years from 2011 to 2013.
4. Xuzhou Dazhong Water Operation Co., Ltd. was approved by the Jiangsu Provincial Donghai County National Tax Authority to be fully exempted from enterprise income tax for the years from 2011 to 2013 and 50% reduction for the years from 2014 to 2016.

17. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Final dividend proposed after the end of the reporting period of RMB0.07, RMB0.035, RMB0.06, nil and nil per ordinary share for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016	115,469	57,422	148,038	–	–

The final dividend proposed after the end of each of the Relevant Periods has not been recognised as a liability at the end of each of the Relevant Periods.

18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	(Unaudited)				
Earnings					
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	279,068	340,469	463,800	402,422	300,083
Number of shares					
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	2,467,304,675	2,467,304,675	2,467,304,675	2,467,304,675	2,467,304,675

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the Bonus Issue (as defined and described in note 45). Immediately after the completion of the Bonus Issue, the total number of shares in issue increased to 2,467,304,675 shares.

After the issue of Bonus Shares on 27 May 2015, the calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for each year/period was based on the assumption that the Bonus Shares had been in issue throughout the year/period.

The diluted earnings per share is equal to the basic earnings per share because the Company had no dilutive potential shares outstanding for all periods presented.

19. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company is dealt with in the statement of financial position of the Company to the extent of RMB127,532,000, RMB260,940,000 and RMB335,217,000, RMB292,515,000 and RMB131,123,000 for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 respectively.

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Motor vehicles	Gas pipelines and machinery	Equipment, furniture and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group Cost							
At 1 January 2013	190,521	10,399	52,586	4,664,801	44,503	474,467	5,437,277
Additions [#]	1,905	612	785	3,990	1,831	469,562	478,685
Transfer of construction in progress	–	–	4,983	496,018	1,531	(502,532)	–
Disposals	(303)	–	(3,714)	(19,532)	(2,686)	–	(26,235)
At 31 December 2013 and 1 January 2014	192,123	11,011	54,640	5,145,277	45,179	441,497	5,889,727
Additions [#]	492	2,802	10,164	14,132	3,890	724,553	756,033
Transfer of construction in progress	515	–	–	430,651	1,076	(432,242)	–
Disposals	–	–	(5,671)	(22,100)	(1,825)	–	(29,596)
At 31 December 2014 and 1 January 2015	193,130	13,813	59,133	5,567,960	48,320	733,808	6,616,164
Additions [#]	368	821	1,610	1,304	772	513,123	517,998
Transfer of construction in progress	4,500	–	6,357	581,533	6,737	(599,127)	–
Disposals	(101)	–	(7,786)	(144,467)	(5,000)	–	(157,354)
At 31 December 2015 and 1 January 2016	197,897	14,634	59,314	6,006,330	50,829	647,804	6,976,808
Additions [#]	–	49	953	364	280	333,991	335,637
Acquired through business combination (note 48)	–	30	5	1,417	63	–	1,515
Transfer of construction in progress	318	–	1,836	361,248	191	(363,593)	–
Transfer to intangible assets (note 24)	(47,388)	–	–	(14,366)	–	(169,205)	(230,959)
Disposals	–	–	(2,929)	(23,001)	(4,847)	–	(30,777)
At 30 June 2016	150,827	14,713	59,179	6,331,992	46,516	448,997	7,052,224
Accumulated depreciation and impairment							
At 1 January 2013	54,745	5,679	24,971	1,749,794	30,723	–	1,865,912
Charge for the year	5,916	1,281	5,395	248,915	3,658	–	265,165
Written back on disposals	(137)	–	(3,165)	(17,964)	(2,149)	–	(23,415)
At 31 December 2013 and 1 January 2014	60,524	6,960	27,201	1,980,745	32,232	–	2,107,662
Charge for the year	6,025	1,418	5,242	274,717	3,651	–	291,053
Written back on disposals	–	–	(4,918)	(22,036)	(1,641)	–	(28,595)
At 31 December 2014 and 1 January 2015	66,549	8,378	27,525	2,233,426	34,242	–	2,370,120
Charge for the year	6,102	1,351	5,524	295,026	4,258	–	312,261
Impairment	–	–	–	51,712	–	–	51,712
Written back on disposals	(97)	–	(7,319)	(135,523)	(4,715)	–	(147,654)
At 31 December 2015 and 1 January 2016	72,554	9,729	25,730	2,444,641	33,785	–	2,586,439
Charge for the period	2,692	694	2,817	154,966	1,988	–	163,157
Transfer to intangible assets (note 24)	(11,795)	–	–	(10,227)	–	–	(22,022)
Written back on disposals	–	–	(2,556)	(16,286)	(4,525)	–	(23,367)
At 30 June 2016	63,451	10,423	25,991	2,573,094	31,248	–	2,704,207
Net book value							
At 31 December 2013	131,599	4,051	27,439	3,164,532	12,947	441,497	3,782,065
At 31 December 2014	126,581	5,435	31,608	3,334,534	14,078	733,808	4,246,044
At 31 December 2015	125,343	4,905	33,584	3,561,689	17,044	647,804	4,390,369
At 30 June 2016	87,376	4,290	33,188	3,758,898	15,268	448,997	4,348,017

Including borrowing costs of approximately RMB2,017,000, RMB43,000 and RMB3,333,000 and RMB1,847,000 capitalised during the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively (note 11).

Due to the fact that certain gas pipelines of the Group were no longer used during the year ended 31 December 2015, management estimated the recoverable amount of these gas pipelines, based on their fair value less costs to sell, to be negligible as it was impractical to remove these gas pipelines from underground for resale. Accordingly, the Group fully impaired these assets in the segment of piped gas supply with net book value of RMB51,712,000 during the year ended 31 December 2015.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group had certain buildings which did not have proper property certificates for the carrying amount of RMB9,745,000, RMB9,659,000, RMB13,541,000 and RMB13,272,000 respectively. Based on the opinion of the PRC lawyer, the Directors do not expect any restriction to continue the use of these properties.

	Motor vehicles	Equipment, furniture and fixtures	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Company				
Cost				
At 1 January 2013	382	387	446	1,215
Additions	–	697	1,245	1,942
At 31 December 2013 and 1 January 2014	382	1,084	1,691	3,157
Additions	–	40	377	417
Transfer of construction in progress	–	2,068	(2,068)	–
Disposals	–	(2,068)	–	(2,068)
At 31 December 2014 and 1 January 2015	382	1,124	–	1,506
Additions	–	126	–	126
At 31 December 2015, 1 January 2016	382	1,250	–	1,632
Additions	–	59	–	59
Disposals	(382)	–	–	(382)
At 30 June 2016	–	1,309	–	1,309
Accumulated depreciation				
At 1 January 2013	367	329	–	696
Charge for the year	–	71	–	71
At 31 December 2013 and 1 January 2014	367	400	–	767
Charge for the year	–	221	–	221
Written back on disposals	–	(78)	–	(78)
At 31 December 2014 and 1 January 2015	367	543	–	910
Charge for the year	–	151	–	151
At 31 December 2015 and 1 January 2016	367	694	–	1,061
Charge for the period	–	83	–	83
Written back on disposals	(367)	–	–	(367)
At 30 June 2016	–	777	–	777
Net book value				
At 31 December 2013	15	684	1,691	2,390
At 31 December 2014	15	581	–	596
At 31 December 2015	15	556	–	571
At 30 June 2016	–	532	–	532

21. INVESTMENT PROPERTIES

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the cost model and are classified and accounted for as investment properties.

Changes to the carrying amounts presented in the consolidated statements of financial position are summarised as follows:

Group	<i>RMB'000</i>
Cost	
At 1 January 2013, 31 December 2013, 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015, 1 January 2016 and 30 June 2016	99,400
Accumulated depreciation	
At 1 January 2013	25,656
Charge for the year	2,199
At 31 December 2013 and 1 January 2014	27,855
Charge for the year	2,199
At 31 December 2014 and 1 January 2015	30,054
Charge for the year	2,199
At 31 December 2015 and 1 January 2016	32,253
Charge for the period	1,099
At 30 June 2016	33,352
Net book value	
At 31 December 2013	71,545
At 31 December 2014	69,346
At 31 December 2015	67,147
At 30 June 2016	66,048
Fair value	
At 31 December 2013	278,290
At 31 December 2014	284,230
At 31 December 2015	306,640
At 30 June 2016	327,930

Company	<i>RMB'000</i>
Cost	
At 1 January 2013, 31 December 2013, 1 January 2014, 31 December 2014, 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	64,138
Accumulated depreciation	
At 1 January 2013	16,368
Charge for the year	1,352
At 31 December 2013 and 1 January 2014	17,720
Charge for the year	1,353
At 31 December 2014 and 1 January 2015	19,073
Charge for the year	1,353
At 31 December 2015 and 1 January 2016	20,426
Charge for the period	676
At 30 June 2016	21,102
Net book value	
At 31 December 2013	46,418
At 31 December 2014	45,065
At 31 December 2015	43,712
At 30 June 2016	43,036
Fair value	
At 31 December 2013	75,020
At 31 December 2014	76,630
At 31 December 2015	78,280
At 30 June 2016	85,540

The estimated useful life of the Group's investment properties is 50 years until March 2049. The fair value of the investment properties has been determined on market value basis by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment properties being valued.

The investment properties of the Group are measured at cost. The fair value disclosed are categorised as Level 3 valuation. The valuation technique is direct comparison method based on market observable transactions of similar properties and adjusted to reflect the conditions and locations of the subject properties. The highest and best use of the investment properties of the Group does not differ from its current use.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group had certain investment properties which did not have proper property certificates for the carrying amount of RMB3,693,000, RMB3,544,000, RMB3,395,000 and RMB3,320,000 respectively. Based on the opinion of the PRC lawyer, the Directors do not expect any restriction to continue the use of these properties.

22. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

Group	<i>RMB'000</i>
Cost	
At 1 January 2013, 31 December 2013 and 1 January 2014	69,094
Additions	29,317
Disposals	(1,004)
	<hr/>
At 31 December 2014, 1 January 2015, 31 December 2015 and 1 January 2016	97,407
Disposals	(11,063)
	<hr/>
At 30 June 2016	86,344
	<hr style="border-top: 1px dashed black;"/>
Accumulated amortisation	
At 1 January 2013	10,927
Charge for the year	1,457
	<hr/>
At 31 December 2013 and 1 January 2014	12,384
Charge for the year	2,125
Written back on disposals	(187)
	<hr/>
At 31 December 2014 and 1 January 2015	14,322
Charge for the year	2,250
	<hr/>
At 31 December 2015 and 1 January 2016	16,572
Charge for the period	1,070
Written back on disposals	(1,733)
	<hr/>
At 30 June 2016	15,909
	<hr style="border-top: 1px dashed black;"/>
Net book value	
At 31 December 2013	56,710
	<hr style="border-top: 3px double black;"/>
At 31 December 2014	83,085
	<hr style="border-top: 3px double black;"/>
At 31 December 2015	80,835
	<hr style="border-top: 3px double black;"/>
At 30 June 2016	70,435
	<hr style="border-top: 3px double black;"/>
	<hr style="border-top: 3px double black;"/>
Company	<i>RMB'000</i>
Cost	
At 1 January 2013, 31 December 2013 and 1 January 2014	2,778
Disposals	(2,778)
	<hr/>
At 31 December 2014, 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	-
	<hr style="border-top: 1px dashed black;"/>
Accumulated amortisation	
At 1 January 2013	666
Charge for the year	56
	<hr/>
At 31 December 2013 and 1 January 2014	722
Charge for the year	51
Written back on disposals	(773)
	<hr/>
At 31 December 2014, 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	-
	<hr style="border-top: 1px dashed black;"/>
Net book value	
At 31 December 2013	2,056
	<hr style="border-top: 3px double black;"/>
At 31 December 2014	-
	<hr style="border-top: 3px double black;"/>
At 31 December 2015	-
	<hr style="border-top: 3px double black;"/>
At 30 June 2016	-
	<hr style="border-top: 3px double black;"/>

23. GOODWILL

	<u>Group</u>
	<i>RMB'000</i>
As at 1 January 2016	–
Acquired through business combination (<i>note 48</i>)	<u>1,312</u>
As at 30 June 2016	<u><u>1,312</u></u>

For the purpose of impairment testing goodwill is allocated to a subsidiary namely Shanghai Dazhong Transportation Commerce, a cash generating units (“CGU”) of the Group.

The recoverable amounts of this CGU are determined from value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, budgeted gross margin and turnover during the period. Cash flow beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which does not exceed the long-term growth rate for the transportation industry in the PRC. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this CGU. The growth rates, budgeted gross margin and turnover are determined based on the past performance and management’s expectation of market development. The rate used to discount the forecast cash flows is 18% per annum.

24. INTANGIBLE ASSETS

Group	Wastewater treatment concession rights	Computer software	Technical knowhow	Total
	RMB'000 (note)	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2013	214,814	4,426	5,646	224,886
Additions	19,744	–	–	19,744
At 31 December 2013 and 1 January 2014	234,558	4,426	5,646	244,630
Additions	7,161	–	–	7,161
Disposals	–	(8)	–	(8)
At 31 December 2014 and 1 January 2015	241,719	4,418	5,646	251,783
Additions	5,679	6,098	–	11,777
At 31 December 2015 and 1 January 2016	247,398	10,516	5,646	263,560
Additions	9,330	51	–	9,381
Transfer from property, plant and equipment	208,937	–	–	208,937
At 30 June 2016	465,665	10,567	5,646	481,878
Accumulated amortisation and impairment				
At 1 January 2013	41,805	4,060	5,646	51,511
Charge for the year	8,612	95	–	8,707
At 31 December 2013 and 1 January 2014	50,417	4,155	5,646	60,218
Charge for the year	9,512	93	–	9,605
Written back on disposals	–	(8)	–	(8)
At 31 December 2014 and 1 January 2015	59,929	4,240	5,646	69,815
Charge for the year	9,527	676	–	10,203
At 31 December 2015 and 1 January 2016	69,456	4,916	5,646	80,018
Charge for the period	11,064	384	–	11,448
At 30 June 2016	80,520	5,300	5,646	91,466
Net book value				
At 31 December 2013	184,141	271	–	184,412
At 31 December 2014	181,790	178	–	181,968
At 31 December 2015	177,942	5,600	–	183,542
At 30 June 2016	385,145	5,267	–	390,412

Before March 2016, certain property, plant and equipment (the “**Construction**”) of the Group used in the wastewater treatment are not required to be transferred to the grantor. In March 2016, the Group obtained concession rights from the local government authority, and agreed that the Construction will be transferred to the grantor at the end of the concession period. As such, a carrying amount of approximately RMB208,937,000 of the Construction fall into the definition of IFRIC 12 “Service Concession Arrangements” and was transferred from property, plant and equipment to intangible assets accordingly.

Note:

The Group's service concession arrangements are concession arrangements for wastewater treatment plants with various local government authorities in the PRC under IFRIC 12 "Service Concession Arrangements". The concession rights arose from six wastewater treatment plants located in different cities in the PRC, namely Jiading, Sanbahe, Jiawang, Peixian, Pizhou and Lianyungang. Except for the wastewater plant in Pizhou which is operated under TOT arrangement, the rest are operated under BOT arrangements.

For wastewater treatment plants that are operated under BOT arrangements, the Group (the operator) was granted rights to construct, operate and maintain those wastewater plants for a period of 20 to 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfills the standard quality requirements of the grantor. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authorities. The infrastructure of the wastewater treatment plant, including the plant and equipment, know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantor or any grantor appointed agencies at the end of the concession period at nil or minimal consideration. The operator has the obligation to maintain and restore the wastewater treatment plants to their operational condition upon transferring to the grantor at the end of the concession period. These BOT arrangements do not contain renewal options. The arrangements will be early terminated only when a party breaches the relevant contracts or due to unforeseeable circumstances. All the operating rights of the above BOT arrangements are recognised as "intangible assets" in the Financial Information and the Interim Comparative Financial Information.

For wastewater treatment plant in Pizhou, which is operated under TOT arrangement, the operator acquired the plant and was granted rights to operate and maintain the plant for a period of 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfills the standard quality requirements of the grantor. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authority. The infrastructure of the wastewater treatment plant, including the plant and equipment, know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantor or any grantor appointed agencies at the end of the concession period at nil consideration. The operator has the obligation to maintain and restore the wastewater treatment plant to its operational condition upon transferring to the grantor at the end of the concession period. The TOT arrangement does not contain renewal options. The arrangement will be early terminated only when a party breaches the contract or due to unforeseeable circumstances. The operating rights of the above TOT arrangement are recognised as "intangible assets" in the Financial Information and the Interim Comparative Financial Information.

No advance payments were made to the Grantors for getting the above BOT and TOT arrangements.

Company

	Computer software
	<i>RMB'000</i>
Cost	
At 1 January 2013, 31 December 2013, 1 January 2014, 31 December 2014 and 1 January 2015	234
Addition	278
At 31 December 2015, 1 January 2016 and 30 June 2016	512
Accumulated amortisation	
At 1 January 2013	76
Charge for the year	47
At 31 December 2013 and 1 January 2014	123
Charge for the year	47
At 31 December 2014 and 1 January 2015	170
Charge for the year	56
At 31 December 2015 and 1 January 2016	226
Charge for the period	39
At 30 June 2016	265
Net book value	
At 31 December 2013	111
At 31 December 2014	64
At 31 December 2015	286
At 30 June 2016	247

25. INVESTMENTS IN SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2013, 2014 and 2015 and 30 June 2016 are as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investment in subsidiaries				
– Unlisted shares, at cost	2,006,895	2,277,068	2,505,268	2,865,382

Particulars of the principal subsidiaries are as disclosed in note 1.

During the Relevant Periods, the amounts due from/(to) subsidiaries were unsecured, repayable on demand and interest-free.

During the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, capital injection of RMB128,725,000, RMB107,500,000, RMB87,500,000 and nil were received from non-controlling interests for investments in Nantong Dazhong Gas, Minhang Dazhong Micro-Credit and Shanghai Dazhong Financial Leasing respectively.

Shanghai Dazhong Gas (a 50% owned subsidiary of the Company), Nantong Dazhong Gas (a 50% owned subsidiary of the Company), Minhang Dazhong Micro-Credit (a 50% owned subsidiary of the Company) and Shanghai Dazhong Financial Leasing (a 65% owned subsidiary of the Company) have material non-controlling interests ("NCI"). The NCI of all other subsidiaries that are not 100% owned by the Group are considered to be immaterial.

Summarised financial information in relation to the significant non-controlling interests before intra-group elimination is presented below:

Shanghai Dazhong Gas

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	3,182,721	3,351,612	3,715,278	2,144,671	2,033,261
Profit for the year/period	5,796	8,526	52,662	59,017	58,888
Total comprehensive income for the year/period	1,618	4,426	47,860	58,375	61,915
(Loss)/profit allocated to NCI	(268)	1,097	23,165	27,926	27,909
Dividends paid to NCI	–	–	–	–	–
Cash flows from operating activities	324,610	692,922	(11,474)	254,752	389,432
Cash flows from investing activities	(274,069)	(444,621)	(386,595)	(225,591)	(91,158)
Cash flows from financing activities	(261,628)	94,750	85,496	92,902	(5,230)
Net cash (outflows)/inflows	(211,087)	343,051	(312,573)	122,063	293,044

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	462,405	777,472	538,602	820,745
Non-current assets	2,882,034	3,177,916	3,217,655	3,317,911
Current liabilities	(1,748,408)	(2,386,027)	(2,154,715)	(2,490,474)
Non-current liabilities	(657,335)	(626,240)	(610,560)	(595,286)
Net assets	938,696	943,121	990,982	1,052,896
Accumulated non-controlling interests	484,653	483,700	504,464	533,886

Nantong Dazhong Gas

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	512,503	608,997	644,422	333,870	345,761
Profit for the year/period	47,433	35,535	43,397	31,365	33,345
Total comprehensive income for the year/period	47,433	35,535	43,397	31,365	33,345
Profit allocated to NCI	24,622	18,035	22,466	16,724	17,319
Dividends paid to NCI	10,000	20,000	10,000	10,000	14,500
Cash flows from operating activities	223,004	135,267	292,800	162,608	85,002
Cash flows from investing activities	(151,507)	(133,261)	(153,031)	(156,669)	(46,767)
Cash flows from financing activities	(101,869)	(32,930)	(24,568)	203	(32,340)
Net cash (outflows)/inflows	(30,372)	(30,924)	115,201	6,142	5,895

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	223,732	199,117	332,081	299,172
Non-current assets	889,972	997,046	1,060,312	1,109,703
Current liabilities	(415,463)	(379,441)	(436,417)	(391,179)
Non-current liabilities	(385,779)	(465,805)	(581,815)	(639,328)
Net assets	312,462	350,917	374,161	378,368
Accumulated non-controlling interests	154,047	173,576	186,042	188,861

Minhang Dazhong Micro-Credit

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	–	22,288	28,996	12,844	11,104
Profit for the year/period	25	12,569	13,394	7,411	6,389
Total comprehensive income for the year/period	25	12,569	13,394	7,411	6,389
Profit allocated to NCI	13	6,285	6,697	3,706	3,194
Dividend paid to NCI	–	–	–	–	9,000
Cash flows from operating activities	(10,623)	(160,072)	18,974	(17,375)	5,945
Cash flows from investing activities	392	(687)	(21,492)	95	(2,078)
Cash flows from financing activities	200,000	9,969	(1,295)	19,412	(26,393)
Net cash inflows/(outflows)	189,769	(150,790)	(3,813)	2,132	(22,526)

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	199,669	223,525	236,671	216,032
Non-current assets	429	2,375	1,788	1,493
Current liabilities	(73)	(13,306)	(12,472)	(3,148)
Net assets	200,025	212,594	225,987	214,377
Accumulated non-controlling interests	100,013	106,297	112,994	107,188

Shanghai Dazhong Financial Leasing

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	–	–	21,531	1,023	31,341
(Loss)/profit for the year/period	–	(1,492)	15,495	2,270	18,726
Total comprehensive income for the year/period	–	(1,492)	15,495	2,270	18,726
(Loss)/profit allocated to NCI	–	(522)	5,423	795	6,554
Dividend paid to NCI	–	–	–	–	–
Cash flows from operating activities	–	(1,412)	13,616	50,765	18,731
Cash flows from investing activities	–	272	(650,587)	(121,274)	(263,925)
Cash flows from financing activities	–	250,771	797,283	–	252,343
Net cash inflows/(outflows)	–	249,631	160,312	(70,509)	7,149

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	–	249,665	838,026	1,065,163
Non-current assets	–	159	346,511	416,450
Current liabilities	–	(546)	(427,109)	(705,088)
Non-current liabilities	–	–	(243,425)	(243,795)
Net assets	–	249,278	514,003	532,730
Accumulated non-controlling interests	–	86,978	179,901	186,455

26. INVESTMENTS IN ASSOCIATES

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	2,671,677	2,969,413	4,041,892	4,423,012
Goodwill	27,362	28,108	40,318	247,103
	2,699,039	2,997,521	4,082,210	4,670,115

Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	2,465,937	2,730,064	3,687,285	3,697,869

The amount due from an associate represented a loan to Shenzhen Capital Group Co., Ltd. The loan amount is unsecured, interest-bearing at 8% per annum and due for repayment in 2016.

(a) Details of the Group's associates at 31 December 2013, 2014 and 2015 and 30 June 2016 are as follows:

Name of company	Date and place of incorporation/ registration and place of operations	Registered capital	As at 31 December						As at 30 June		Principal activities
			2013		2014		2015		2016		
			Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to the Company		Percentage of equity interest attributable to the Company		
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	
大眾交通(集團)股份有限公司 ⁽¹⁾⁽³⁾ Dazhong Transportation (Group) Co., Ltd. ("Dazhong Transportation Group")	24 December 1988 PRC/PRC	(RMB) 2,364,122,864	20.76	3.72	20.76	3.78	19.82	4.14	19.82	5.72	Public transportation
深圳市創新投資集團有限公司 ⁽¹⁾⁽²⁾ Shenzhen Capital Group Co., Ltd. ("Shenzhen Capital Group")	26 August 1999 PRC/PRC	4,202,249,520	13.93	-	13.93	-	13.93	-	13.93	-	Investment holding and provision of financial consultation and assets management services
上海電科智能系統股份有限公司 ⁽¹⁾ Shanghai Dianke Intelligence Systems Inc. ("SEISYS")	12 December 2007 PRC/PRC	100,000,000	28	-	28	-	28	-	28	-	Provision of products and services for smart transportation solution
上海杭信投資管理有限公司 ⁽¹⁾⁽²⁾ Shanghai Hangxin Investment Management Co., Ltd. ("Shanghai Hangxin")	22 April 2004 PRC/PRC	255,600,000	16.13	-	16.13	-	16.13	-	16.13	-	Investment business
上海興燁創業投資有限公司 ⁽¹⁾⁽⁴⁾ Shanghai Xingye Venture Capital Co., Ltd. ("Xingye Venture Capital")	4 June 2008 PRC/PRC	40,000,000	20	-	20	-	20	-	20	-	Investment business
上海徐匯昂立小額貸款股份有限公司 ⁽¹⁾ Shanghai Xuhui Only Micro-credit Co., Ltd. ("Xuhui Only Micro-credit")	3 November 2012 PRC/PRC	150,000,000	20	-	20	-	20	-	20	-	Micro-credit services
蘇創燃氣股份有限公司 ⁽²⁾ (Suchuang Gas Corporation Limited) ("Suchuang Gas")	4 July 2013 Cayman Islands/PRC	50,000,000	-	-	-	-	-	-	-	19.76	Sale of gas, provision of gas transmission and gas pipelines construction and installation

Notes:

- (1) The English names of the associates registered in the PRC represents the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.
- (2) During the Relevant Periods, the Group held, directly or indirectly through its subsidiaries, less than 20% of the voting rights of these entities. Nevertheless, the Directors concluded that the Group has significant influence over these entities and these entities are therefore accounted for as associates using equity method. Please refer to note 5(a) for basis of conclusion.
- (3) During the year ended 31 December 2015, the Group disposed of an aggregate equity interest of 0.94% in Dazhong Transportation Group at an aggregate consideration of RMB267,655,000. The resulted gain on partial disposal of RMB216,386,000 was included in the consolidated financial statements. Furthermore, the Group also acquired additional equity interests of 0.06%, 0.36% and 1.58% respectively in Dazhong Transportation Group during the years ended 31 December 2014 and 2015 and the six months ended 30 June 2016 respectively.
- (4) The registered capital of Xingye Venture Capital was reduced from RMB200,000,000 to RMB40,000,000 during the year ended 31 December 2015.

(b) Summarised financial information (material associates)*Dazhong Transportation Group*

(1) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	3,162,764	2,935,245	2,399,147	1,185,721	1,188,295
Cost of sales	(2,415,959)	(2,158,328)	(1,612,250)	(789,849)	(808,933)
Gross profit	746,805	776,917	786,897	395,872	379,362
Other income and gains/(losses), net	326,877	333,769	415,933	164,182	227,970
Selling and distribution costs	(70,415)	(62,170)	(69,790)	(22,110)	(76,648)
Administrative expenses	(327,081)	(355,308)	(404,744)	(170,205)	(144,334)
Finance costs	(99,845)	(110,786)	(92,738)	(56,605)	(38,486)
Share of profits of associates	37,990	33,239	59,578	31,250	9,740
Profit before income tax expense	614,331	615,661	695,136	342,384	357,604
Income tax expense	(134,370)	(119,212)	(133,569)	(67,311)	(80,983)
Profit for the year/period	479,961	496,449	561,567	275,073	276,621
Other comprehensive income	(181,460)	515,563	1,868,255	975,862	403,661
Total comprehensive income for the year/period	<u>298,501</u>	<u>1,012,012</u>	<u>2,429,822</u>	<u>1,250,935</u>	<u>680,282</u>
Dividend received from Dazhong Transportation Group	<u>30,244</u>	<u>30,457</u>	<u>33,259</u>	<u>33,259</u>	<u>37,621</u>

(2) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	2,454,169	2,208,137	2,036,315	2,043,889
Construction in progress	26,328	21,486	11,016	27,348
Investment properties	34,132	39,150	103,834	105,764
Intangible assets	1,285,821	1,273,969	1,301,979	1,292,060
Investments in associates	491,422	538,437	636,566	666,476
Available-for-sale financial assets	1,350,937	2,033,699	4,342,862	4,995,306
Trade and other receivables	184,570	325,724	281,415	397,210
Deferred tax assets	81,774	78,383	102,086	103,071
Total non-current assets	5,909,153	6,518,985	8,816,073	9,631,124
Current assets				
Inventories	1,165,139	1,385,644	1,637,565	1,789,190
Trade receivables	128,145	133,035	127,158	144,479
Prepayments, deposits and other receivables	1,835,401	1,711,610	1,453,408	1,456,893
Financial assets at fair value through profit or loss	–	–	56,068	114,901
Cash and bank balances	1,208,328	1,490,786	2,611,752	2,717,874
Total current assets	4,337,013	4,721,075	5,885,951	6,223,337
Current liabilities				
Borrowings	2,303,666	2,123,446	1,270,000	2,421,500
Trade payables	213,366	111,063	110,930	128,277
Other payables and accruals	1,212,276	1,580,750	3,122,720	2,522,095
Current tax liabilities	71,296	77,896	94,406	64,899
Total current liabilities	3,800,604	3,893,155	4,598,056	5,136,771
Net current assets	536,409	827,920	1,287,895	1,086,566
Total assets less current liabilities	6,445,562	7,346,905	10,103,968	10,717,690
Non-current liabilities				
Borrowings	60,969	61,190	–	–
Other payables	110,926	84,206	69,686	62,426
Deferred income	20,608	17,272	13,936	12,268
Deferred tax liabilities	101,387	245,757	885,582	1,029,565
Total non-current liabilities	293,890	408,425	969,204	1,104,259
Net assets	6,151,672	6,938,480	9,134,764	9,613,431
Equity				
Share capital	1,576,082	1,576,082	1,576,082	2,364,123
Reserves	3,947,349	4,760,118	6,996,583	6,716,688
Equity attributable to owners of the Company	5,523,431	6,336,200	8,572,665	9,080,811
Non-controlling interests	628,241	602,280	562,099	532,620
Total equity	6,151,672	6,938,480	9,134,764	9,613,431
<i>Reconciliation to the Group's interests in the associate:</i>				
Proportion of the Group's ownership	24.48%	24.54%	23.96%	25.54%
Group's share of net assets of the associate	1,352,351	1,554,683	2,053,590	2,319,199
Goodwill	27,362	28,108	40,318	92,431

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Elimination of unrealised profit	(18,695)	(18,695)	(17,848)	(17,848)
Carrying amount of the associate	1,361,018	1,564,096	2,076,060	2,393,782
Fair value of the Group's investment based on quoted market price	2,259,634	4,242,024	4,966,236	3,899,261

(3) OTHER FINANCIAL INFORMATION

(i) Loss on sales of properties

	For the year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loss on disposal of payments for leasehold land	–	1,214	24,737	–	–

(ii) Income tax

The provision for the Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries and associates of Dazhong Transportation Group as determined in accordance with the PRC Enterprise Income Tax Law for the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016.

(iii) Ageing analysis of trade receivables by invoices date are shown as follows:

	As at 31 December			As at 30 June	
	2013	2014	2015	2016	
	RMB'000	RMB'000	RMB'000	RMB'000	
Within one year	126,647	131,890	125,253	144,015	
Over one year	1,498	1,145	1,905	464	
	128,145	133,035	127,158	144,479	

(iv) Dividends

	For the year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Dividend	126,086	126,086	141,847	141,847	157,608
Dividend per ordinary share (Note)	RMB0.08	RMB0.08	RMB0.09	RMB0.09	RMB0.10

Note:

On 21 April 2016, Dazhong Transportation Group was proposed to issue bonus shares to all of the shareholders of Dazhong Transportation Group on the basis of five new shares for every ten existing shares of Dazhong Transportation Group.

Shenzhen Capital Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	2,128,439	2,682,788	3,558,884	4,003,252
Non-current assets*	10,584,662	11,270,118	16,648,576	16,262,380
Current liabilities#	(3,086,308)	(2,564,218)	(3,936,089)	(5,345,078)
Non-current liabilities#	(1,149,424)	(2,066,331)	(3,175,618)	(2,686,839)
Net assets	<u>8,477,369</u>	<u>9,322,357</u>	<u>13,095,753</u>	<u>12,233,715</u>
<i>Reconciliation to the Group's interests in the associate:</i>				
Proportion of the Group's ownership	13.93%	13.93%	13.93%	13.93%
Group's share of net assets of the associate	<u>1,110,914</u>	<u>1,209,837</u>	<u>1,690,895</u>	<u>1,581,177</u>
Carrying amount of the associate	<u>1,110,914</u>	<u>1,209,837</u>	<u>1,690,895</u>	<u>1,581,177</u>

* The non-current assets mainly comprised the available-for-sale financial assets and investments in associates which in total contributed 95%, 95%, 96%, 96% of the total non-current assets as at 31 December 2013, 2014, 2015 and 30 June 2016 respectively.

The liabilities mainly comprised bank borrowings and bond payables which in total contributed 62%, 59%, 58% and 54% of the total liabilities as at 31 December 2013, 2014, 2015 and 30 June 2016 respectively.

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	384,797	398,193	465,833	107,160	195,205
Profit from continuing operations	863,886	1,138,297	1,012,491	790,754	746,375
Other comprehensive income	172,175	(18,131)	3,001,882	1,933,299	(1,106,902)
Total comprehensive income	1,036,061	1,120,166	4,014,373	2,724,053	(360,527)
Dividends received from the associate	<u>48,787</u>	<u>48,787</u>	<u>58,544</u>	<u>58,537</u>	<u>–</u>

(c) Summarised financial information (immaterial associates)

	As at 31 December			As at 30 June	
	2013	2014	2015	2016	
	RMB'000	RMB'000	RMB'000	RMB'000	
Carrying amount of individually immaterial associates in the consolidated statements of financial position	227,107	223,588	315,255	695,156	

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Share of the associates' profit from continuing operations	27,758	10,391	13,653	2,063	39,377
Share of the associates' other comprehensive income	(10,601)	(405)	112,813	113,559	36,925
Share of the associates' total comprehensive income	17,157	9,986	126,466	115,622	76,302

27. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group

	As at 31 December			As at 30 June	
	2013	2014	2015	2016	
	RMB'000	RMB'000	RMB'000	RMB'000	
Non-current investments					
– Listed debt investments	49,692	32,935	16,910	17,165	
– Listed equity investments	236,389	432,382	505,513	462,137	
– Unlisted equity investments (note)	577,007	376,286	366,537	458,581	
	863,088	841,603	888,960	937,883	
Less: Allowance for impairment losses	(97,861)	(55,231)	(55,231)	(55,231)	
	765,227	786,372	833,729	882,652	
Current investments					
– Investment-linked deposits*	30,000	28,000	85,000	60,000	

Company

	As at 31 December			As at 30 June	
	2013	2014	2015	2016	
	RMB'000	RMB'000	RMB'000	RMB'000	
Non-current investments					
– Listed equity investments	207,104	382,729	360,486	327,795	
– Unlisted equity investments	45,358	21,799	21,799	45,727	
	252,462	404,528	382,285	373,522	

- * These investment-linked deposits products were provided by the PRC banking institutions with guaranteed rates of return at fixed periods of terms within 3 months generally. The Directors assessed that (i) the fair value of embedded derivative of these deposits was insignificant and accordingly such embedded derivative had not been separately recognised; and (ii) the cost of these deposits is approximated to their fair value, given that these deposits were with guaranteed rates of return and short maturities of within 3 months generally.

Note:

The unlisted equity instruments held by the Group are issued by private companies. As the reasonable range of fair value estimation is so significant that the Directors are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period. The Group assessed, at the end of each of the Relevant Periods, whether there was any objective evidence that the unlisted equity investments were impaired. The steps taken by the Directors in assessing whether such objective evidence existed mainly include (i) obtaining information about whether there were significant changes with an adverse effect that had taken place in the technological, market, economic or legal environment in which the investees operated, such as structural changes in the industries in which the investees operate, changes in the level of demand for the goods or services sold by the investees resulting from product obsolescence, changes in the political or legal environments affecting the business of the investees; and (ii) whether there was any observable data that came to the attention of the Group about loss events such as changes in the investee's financial condition evidenced by changes in its liquidity, credit rating, profitability, cash flows, debt/equity ratio and level of dividend payment of the investees, that indicates that the cost of the investments might not be recovered. When there was objective evidence that any such individual asset was impaired, the amount of impairment loss was measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

In the opinion of the Directors, non-current available-for-sale financial assets are not expected to be realised within one year from the end of respective reporting periods.

During the Relevant Periods, the Group held, directly or indirectly through its subsidiaries, 20% or more of the voting rights of certain entities accounted for as available-for-sale financial assets. Nevertheless, the Directors concluded that the Group does not have significant influence over these entities and these entities are therefore accounted for as available-for-sale financial assets measured at cost less impairment. Please refer to note 5(a) for basis of conclusion.

28. TRADE AND BILLS RECEIVABLES

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Trade and bills receivables				
– Trade receivables	348,485	312,106	331,652	313,687
– Bills receivables	–	–	17,081	5,237
	348,485	312,106	348,733	318,924
Less: Allowance for impairment losses	(19,180)	(17,908)	(19,259)	(19,672)
Current portion	329,305	294,198	329,474	299,252
Non-current: retention sum for construction contracts	643,683	593,349	544,600	519,784
	972,988	887,547	874,074	819,036

Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	-	-	-	-
Less: Allowance for impairment losses	-	-	-	-
Current portion	-	-	-	-
Non-current: retention sum for construction contracts	111,136	79,383	47,630	31,753
	<u>111,136</u>	<u>79,383</u>	<u>47,630</u>	<u>31,753</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally within 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Although the Group's trade receivables relate to a number of customers, there is concentration of credit risk. The trade receivables from the five largest debtors as at 31 December 2013, 2014 and 2015 and 30 June 2016 represented 28.39%, 24.23%, 29.98% and 37.49% of total trade receivables, while 11.24%, 9.52%, 10.62% and 13.85% of the total receivables were due from the largest debtor.

An aged analysis of the trade and bills receivables of the Group, excluding the retention receivables, as at the end of reporting period, based on the invoice date, is as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	306,482	286,263	321,377	287,417
1 to 2 years	6,194	5,892	5,927	9,550
2 to 3 years	19,866	3,178	3,407	3,379
3 to 4 years	1,974	2,072	2,354	2,415
4 to 5 years	1,485	1,584	1,591	1,705
Over 5 years	12,484	13,117	14,077	14,458
	<u>348,485</u>	<u>312,106</u>	<u>348,733</u>	<u>318,924</u>
Less: Allowance for impairment losses	(19,180)	(17,908)	(19,259)	(19,672)
	<u>329,305</u>	<u>294,198</u>	<u>329,474</u>	<u>299,252</u>

The aged analysis of the trade and bills receivables from third parties of the Group, excluding the retention receivables, that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired*	246,611	249,691	297,922	234,313
Within 1 year past due	56,806	33,807	20,412	50,282
1 to 2 years past due	5,884	5,598	5,630	9,072
2 to 3 years past due	17,879	2,860	3,066	3,041
3 to 4 years past due	1,382	1,450	1,648	1,691
4 to 5 years past due	743	792	796	853
	<u>329,305</u>	<u>294,198</u>	<u>329,474</u>	<u>299,252</u>

* The amounts include retention sum for construction contracts which represents retention receivables due from customers upon completion of the free maintenance period of the construction work, which normally last from 5 to 15 years. As at 31 December 2013, 2014 and 2015 and 30 June 2016, retention receivables are neither past due nor impaired.

Receivables from third parties that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The below table reconciles the impairment loss of trade receivables during the Relevant Periods:

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	16,931	19,180	17,908	19,259
Impairment loss recognised	2,319	449	1,351	413
Written-off of impairment loss previously recognised	(70)	(1,721)	–	–
At end of the year/period	<u>19,180</u>	<u>17,908</u>	<u>19,259</u>	<u>19,672</u>

29. LEASE RECEIVABLES

As 31 December 2015, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery and solar equipment financial leasing arrangements, is as follows:

Group

	Motor vehicles	Machinery	Solar equipment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease receivables	50,152	7,434	790,658	848,244
Less: Unearned finance income	(6,436)	(1,409)	(87,470)	(95,315)
At 31 December	<u>43,716</u>	<u>6,025</u>	<u>703,188</u>	<u>752,929</u>

An aged analysis of lease receivables as at 31 December 2015, determined based on the age of the receivables since the effective dates of the relevant lease contracts is as follows:

	Lease receivables	Unearned finance income	Net lease receivables
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	474,028	(61,243)	412,785
1 to 2 years	217,808	(25,471)	192,337
2 to 3 years	145,414	(7,735)	137,679
3 to 4 years	6,257	(678)	5,579
4 to 5 years	4,737	(188)	4,549
	<u>848,244</u>	<u>(95,315)</u>	<u>752,929</u>
Less: Non-current portion	(374,216)	34,072	(340,144)
Current portion	<u>474,028</u>	<u>(61,243)</u>	<u>412,785</u>

As 30 June 2016, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery, solar equipment and hotel equipment financial leasing arrangements, is as follows:

	Motor vehicles	Machinery	Solar equipment	Hotel equipment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease receivables	83,500	15,579	797,887	90,353	987,319
Less: Unearned finance income	(8,823)	(2,177)	(69,467)	(9,937)	(90,404)
At 30 June	<u>74,677</u>	<u>13,402</u>	<u>728,420</u>	<u>80,416</u>	<u>896,915</u>

An aged analysis of lease receivables as at 30 June 2016, determined based on the age of the receivables since the effective dates of the relevant lease contracts, is as follows:

	Lease receivables	Unearned finance income	Net lease receivables
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	544,113	(58,609)	485,504
1 to 2 years	291,913	(24,759)	267,154
2 to 3 years	130,370	(5,503)	124,867
3 to 4 years	12,785	(1,230)	11,555
4 to 5 years	8,138	(303)	7,835
	<u>987,319</u>	<u>(90,404)</u>	<u>896,915</u>
Less: Non-current portion	(443,206)	31,795	(411,411)
Current portion	<u>544,113</u>	<u>(58,609)</u>	<u>485,504</u>

Lease receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the end of reporting periods is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB856,460,000 and RMB1,075,460,000 as at 31 December 2015 and 30 June 2016.

30. AMOUNT DUE FROM GRANTOR

A profile of the amount due from grantor as at the end of the reporting periods, based on the due date, is as follows:

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 year	31,570	33,244	33,090	33,969
Non-current portion	719,551	686,306	653,216	635,792
	<u>751,121</u>	<u>719,550</u>	<u>686,306</u>	<u>669,761</u>

The credit quality of amount due from grantor that is neither past due nor impaired has been assessed by reference to historical information about counterparty default rate. The existing counterparty did not default in the past.

The Group recognised financial asset – amount due from grantor in respect of its public infrastructure projects arising from a BOT arrangement. The significant aspects of the service concession arrangement are summarised as follows:

- (a) The Group entered into a service concession arrangement with the local government authority (i.e., grantor) for the Xianyin Road Tunnel construction and operation of which is located in Shanghai, the PRC for a concession period of 25 years. Pursuant to the service concession arrangement, the Group has to design, construct and operate the Xianyin Road Tunnel, and has the obligation to maintain the Xianyin Road Tunnel in good condition. The Group will be paid for its services over the service concession period at prices stipulated through a pricing mechanism. Upon expiry of the concession period, the Xianyin Road Tunnel and the related facilities will be transferred to the grantor at nil consideration.

The service concession arrangement does not contain any renewal options. The standard rights of the grantor to terminate include failure of the Group to construct and operate the Xianyin Road Tunnel and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the arrangement include failure to receive payments for road and tunnel service from the grantor and in the event of a material breach of the terms of the agreement.

- (b) The public infrastructure projects with financial receivables amounting to RMB751,121,000, RMB719,550,000, RMB686,306,000 and RMB669,761,000 as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively are pledged to secure the loans taken up by the Group (note 37).

Amount due from grantor is in respect of revenue from construction services under BOT arrangement and bears interest at a rate of 5.4% per annum. The amount was not yet due for payment at the end of each of the Relevant Periods and will be settled by revenue to be generated during the operating periods of the BOT arrangement.

31. DEFERRED TAX ASSETS/(LIABILITIES)

The components and movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Group

	Impairment of assets	Provision	Fair value changes of available- for-sale financial assets	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2013	803	2,377	(58,818)	(15,736)	(71,374)
(Charged)/credited to profit or loss	(252)	565	(3)	729	1,039
Credited to other comprehensive income	–	–	17,926	–	17,926
At 31 December 2013 and 1 January 2014	551	2,942	(40,895)	(15,007)	(52,409)
(Charged)/credited to profit or loss	(244)	647	(68)	394	729
Charged to other comprehensive income	–	–	(45,539)	–	(45,539)
At 31 December 2014 and 1 January 2015	307	3,589	(86,502)	(14,613)	(97,219)
Credited/(charged) to profit or loss	92	582	(1)	8,496	9,169
Charged to other comprehensive income	–	–	(12,631)	39	(12,592)
At 31 December 2015 and 1 January 2016	399	4,171	(99,134)	(6,078)	(100,642)
Credited to profit or loss	599	503	–	558	1,660
Credited to other comprehensive income	–	–	21,196	330	21,526
At 30 June 2016	998	4,674	(77,938)	(5,190)	(77,456)

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	5,173	5,902	19,618	22,064
Deferred tax liabilities	(57,582)	(103,121)	(120,260)	(99,520)
	<u>(52,409)</u>	<u>(97,219)</u>	<u>(100,642)</u>	<u>(77,456)</u>

Deferred tax assets have not been recognised for the following:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deductible temporary differences	276,437	212,745	244,686	228,490
Unused tax losses	243,243	246,530	144,467	151,182
	<u>519,680</u>	<u>459,275</u>	<u>389,153</u>	<u>379,672</u>

No deferred tax asset is recognised in relation to such tax losses and other deductible temporary differences due to the unpredictability of future profit streams.

Tax losses unrecognised as deferred tax assets that will expire in:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
2014	32,935	–	–	–
2015	41,733	41,733	–	–
2016	4,405	4,405	4,078	4,078
2017	33,001	33,001	7,332	7,107
2018	131,169	131,169	90,774	79,706
2019	–	36,222	34,129	12,914
2020	–	–	8,154	8,276
2021	–	–	–	39,101
	<u>243,243</u>	<u>246,530</u>	<u>144,467</u>	<u>151,182</u>

Company

	Fair value changes of available-for-sale financial assets	Others	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2013	(58,889)	(1,206)	(60,095)
Credited to other comprehensive income	17,926	–	17,926
At 31 December 2013 and 1 January 2014	(40,963)	(1,206)	(42,169)
Charged to other comprehensive income	(45,539)	–	(45,539)
At 31 December 2014 and 1 January 2015	(86,502)	(1,206)	(87,708)
Credited to other comprehensive income	5,560	40	5,600
At 31 December 2015 and 1 January 2016	(80,942)	(1,166)	(82,108)
Credited to other comprehensive income	18,524	–	18,524
At 30 June 2016	<u>(62,418)</u>	<u>(1,166)</u>	<u>(63,584)</u>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Deferred tax liabilities	(42,169)	(87,708)	(82,108)	(63,584)

32. INVENTORIES

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	11,234	14,645	10,298	14,214
Work-in-progress	123	241	178	170
Finished goods	17,298	16,041	11,867	18,284
	28,655	30,927	22,343	32,668

33. LOAN RECEIVABLES

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loan receivables	10,000	186,451	208,200	210,400
Less: Allowance for impairment losses	(100)	(2,572)	(7,389)	(7,691)
Current portion	9,900	183,879	200,811	202,709

The Group's loan receivables, which arise from the micro-credit business of providing loans in the PRC, are denominated in RMB.

Loan receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the end of reporting periods is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB8,000,000, RMB154,690,000, RMB316,333,000 and RMB558,473,000 as at 31 December 2013, 2014 and 2015 and 30 June 2016.

An aging analysis of loan receivables (that are not considered to be impaired) as at the end of the reporting period, based on the payment due date, is as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	9,900	163,345	155,925	157,823
Less than 1 year past due	–	20,534	44,886	–
Over 1 year past due	–	–	–	44,886
	<u>9,900</u>	<u>183,879</u>	<u>200,811</u>	<u>202,709</u>

A maturity profile of the loan receivables as at the end of the reporting periods, based on the maturity date, is as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	10,000	186,451	208,200	210,400
1 to 2 years	–	–	–	–
	<u>10,000</u>	<u>186,451</u>	<u>208,200</u>	<u>210,400</u>

The credit quality of loan receivables that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates. The existing counterparties do not have defaults in the past.

The below table reconciles the impairment loss of loan receivables during the Relevant Periods:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	–	100	2,572	7,389
Impairment loss recognised	100	2,472	4,817	302
At end of the year/period	<u>100</u>	<u>2,572</u>	<u>7,389</u>	<u>7,691</u>

34. PREPAYMENTS AND OTHER RECEIVABLES

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	18,845	3,674	9,371	19,574
Other receivables	49,148	44,623	174,804	89,486
Interest receivables	469	5,296	469	2,931
Dividend receivables	–	–	17,442	61,292
	68,462	53,593	202,086	173,283
Less: Allowance for impairment losses	(20,418)	(21,232)	(23,153)	(13,610)
	<u>48,044</u>	<u>32,361</u>	<u>178,933</u>	<u>159,673</u>

The below table reconciles the impairment loss of prepayments and other receivables during the Relevant Periods:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	20,236	20,418	21,232	23,153
Impairment loss recognised	182	814	1,921	–
Reversal of impairment loss previously recognised	–	–	–	(9,543)
At end of the year/period	<u>20,418</u>	<u>21,232</u>	<u>23,153</u>	<u>13,610</u>

Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	120	1,444	7,780	14,445
Other receivables	1,136	9,705	101,544	3,918
Interest receivables	469	5,296	469	2,883
Dividend receivables	–	–	2,000	58,544
	<u>1,725</u>	<u>16,445</u>	<u>111,793</u>	<u>79,790</u>

35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed equity investments	181	45,965	104,871	62,880
Listed debt investments	–	1,190	1,462	1,493
	<u>181</u>	<u>47,155</u>	<u>106,333</u>	<u>64,373</u>

Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed equity investments	–	56	42	36

36. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	964,069	1,565,381	1,553,052	2,104,288
Less: Pledged short-term deposits	(4,619)	(35,302)	(3,397)	(158,000)
Cash and cash equivalents	<u>959,450</u>	<u>1,530,079</u>	<u>1,549,655</u>	<u>1,946,288</u>

Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	109,612	279,655	372,617	471,488
Less: Pledged short-term deposits	–	–	–	(158,000)
Cash and cash equivalents	<u>109,612</u>	<u>279,655</u>	<u>372,617</u>	<u>313,488</u>

Cash and banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

As at 31 December 2013, 2014 and 2015, pledged deposits represent deposits pledged to banks to secure bank bills facilities granted to the Group. As at 30 June 2016, deposits were pledged to secure a bank loan.

RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

37. BORROWINGS

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion				
Secured bank loans	123,995	127,026	135,710	459,790
Unsecured bank loans	524,500	737,000	1,361,999	1,875,816
	648,495	864,026	1,497,709	2,335,606
Non-current portion				
Secured bank loans	161,550	225,550	185,000	162,234
Unsecured bank loans	25,500	34,476	253,710	223,198
	187,050	260,026	438,710	385,432
Total borrowings	835,545	1,124,052	1,936,419	2,721,038
Bank loan interest at rate per annum in the range of	1.15% to 6.56%	1.15% to 6.55%	0.90% to 5.84%	0.90% to 4.90%

Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion				
Unsecured bank loans	410,000	512,000	668,900	1,059,200
Bank loan interest at rate per annum in the range of	5.32% to 6.43%	5.32% to 5.60%	3.67% to 4.32%	3.70% to 3.92%

At 31 December, total current and non-current bank borrowings were scheduled to repay as follows:

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
On demand or within one year	648,495	864,026	1,497,709	2,335,606
More than one year, but not exceeding two years	125,000	118,444	216,981	345,409
More than two years, but not exceeding five years	62,050	141,582	221,729	40,023
	835,545	1,124,052	1,936,419	2,721,038

Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
On demand or within one year	410,000	512,000	668,900	1,059,200

The carrying amounts of the Group's and the Company's current interest-bearing bank loans approximate to their fair values.

The Group's interest-bearing bank loans are secured by the pledges of the following assets with carrying values at the end of the Relevant Periods as follows:

	Notes	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
Pledge of assets:					
Available-for-sale financial assets	(i)	78,977	32,935	16,910	17,165
Financial assets at fair value through profit or loss	(i)	–	47,083	106,291	64,338
Trade receivables	(ii)	558,518	545,200	496,970	–
Amount due from grantor	(iii)	751,121	719,550	686,306	669,761
Investments in associates	(iv)	–	–	–	292,150
Pledged deposits	(iv)	–	–	–	158,000
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes:

- (i) Bank loans amounting to RMB16,995,000, RMB25,026,000, RMB31,710,000 and RMB26,811,000 as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively were secured by available-for-sale financial assets and financial assets at fair value through profit or loss in note 27 and note 35 respectively.
- (ii) Bank loans amounting to RMB150,000,000, RMB100,000,000, RMB50,000,000 and RMB Nil as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively were secured by the retention sum for construction contracts included in trade receivables in note 28.
- (iii) Bank loans amounting to RMB118,550,000, RMB227,550,000, RMB239,000,000 and RMB212,000,000 as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively were secured by the amount due from grantor in note 30.
- (iv) A bank loan amounting to USD57,000,000 as at 30 June 2016 was secured by 72 million shares of Dazhong Transportation Group in note 26 and pledged deposits in note 36.

At 31 December 2013, 2014 and 2015 and 30 June 2016, the Company has issued guarantees to banks to secured banking facilities granted to certain subsidiaries to the extent of RMB2,000,000,000, RMB2,000,000,000 and RMB2,500,000,000 and RMB2,500,000,000 respectively. The aforesaid bank loans outstanding as at 31 December 2013, 2014 and 2015 and 30 June 2016 were RMB150,000,000, RMB133,976,000, RMB681,754,000 and RMB1,117,866,000 respectively.

Most of the Group's bank borrowings agreements provide that without the lending banks' prior written consent, the Group cannot conduct reorganisations, mergers, consolidations, changes of major equity holders, changes of business model, transfer or sale of major assets, investments, guarantees, substantial increases of debt or other actions that may affect the Group's ability to repay the loans.

Included in unsecured loans were loan from a fellow subsidiary of Shanghai Gas Group, one of the shareholders of the Company, amounting to RMB100,000,000, RMB200,000,000, RMB300,000,000, RMB300,000,000 as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively. These balances were unsecured, interest bearing at interest rates of 5.04%, 5.04%, 3.92%–5.04% and 3.92% per annum respectively and repayable within one year.

The Group has aggregated banking facilities of RMB2,056,995,000, RMB2,680,526,000, RMB6,177,460,000 and RMB6,878,524,000 acquired from the bankers, of which RMB835,545,000, RMB1,124,052,000, RMB1,936,419,000 and RMB2,721,038,000 were utilised and RMB1,221,450,000, RMB1,556,474,000, RMB4,241,041,000 and RMB4,157,486,000 were unutilised as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively.

38. CORPORATE BONDS PAYABLE

As approved by the China Securities Regulatory Commission document [2011] No. 2079, the Company issued domestic corporate bonds with an aggregate principal amount of RMB1.6 billion on 6 January 2012. The bonds mature in six years and bear interest at a benchmark interest rate (based on the National Interbank Funding Center released interest rate) plus an interest margin of 2.95% per annum.

The corporate bonds are stated at amortised cost. Interest is payable once every six months.

The corporate bonds recognised in the consolidated statements of financial position are calculated as follows:

Group and Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	1,578,735	1,582,360	1,586,208	1,590,465
Add: Interest expense	107,294	114,846	110,135	45,097
Less: Interest paid	(103,669)	(110,998)	(105,878)	(42,882)
At end of the year/period	<u>1,582,360</u>	<u>1,586,208</u>	<u>1,590,465</u>	<u>1,592,680</u>

39. TRADE AND BILLS PAYABLES**Group**

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
– Shanghai Gas Group	736,310	992,482	814,254	1,053,007
– Third parties	206,338	384,677	297,201	422,667
– SEISYS, an associate of the Group	722	–	–	–
	<u>943,370</u>	<u>1,377,159</u>	<u>1,111,455</u>	<u>1,475,674</u>
Bills payable	13,095	–	–	–
	<u>956,465</u>	<u>1,377,159</u>	<u>1,111,455</u>	<u>1,475,674</u>

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	942,459	1,365,978	1,101,783	1,464,787
1 to 2 years	3,287	3,415	971	3,711
2 to 3 years	5,885	749	2,022	1,776
Over 3 years	4,834	7,017	6,679	5,400
	<u>956,465</u>	<u>1,377,159</u>	<u>1,111,455</u>	<u>1,475,674</u>

40. OTHER PAYABLES

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current portion				
Deposits received, other payables and accruals	376,250	432,150	539,063	412,757
Amount due to Shanghai Gas Group	42,444	52,521	20,791	18,131
Receipt in advance	158,357	120,928	114,644	166,201
Salary payables	43,484	46,157	57,006	53,042
Interest payables	55,343	2,132	1,979	43,989
Dividend payables	911	911	911	2,711
Deferred government grants	272	272	272	272
	<u>677,061</u>	<u>655,071</u>	<u>734,666</u>	<u>697,103</u>
Non-current portion				
Amount due to Shanghai Gas Group	37,310	37,310	37,310	37,310
Finance lease deposits received	–	–	56,785	79,685
Deferred government grants	1,064	792	11,900	42,387
	<u>38,374</u>	<u>38,102</u>	<u>105,995</u>	<u>159,382</u>
	<u><u>715,435</u></u>	<u><u>693,173</u></u>	<u><u>840,661</u></u>	<u><u>856,485</u></u>

Company

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	17,166	23,117	18,052	19,126
Salary payables	20,963	20,132	22,498	17,631
Receipt in advance	–	260	–	546
Interest payables	54,424	831	747	42,614
Dividend payables	911	911	911	911
	<u>93,464</u>	<u>45,251</u>	<u>42,208</u>	<u>80,828</u>

Other payables are non-interest-bearing.

41. DEFERRED INCOME

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	1,105,992	1,143,099	1,194,979	1,281,482
Additions	241,424	255,864	293,846	160,296
Released to profit or loss	(204,317)	(203,984)	(207,343)	(108,331)
At end of the year/period	<u>1,143,099</u>	<u>1,194,979</u>	<u>1,281,482</u>	<u>1,333,447</u>
Analysed into:				
Current	188,700	195,224	203,076	209,969
Non-current	954,399	999,755	1,078,406	1,123,478
At end of the year/period	<u>1,143,099</u>	<u>1,194,979</u>	<u>1,281,482</u>	<u>1,333,447</u>

Deferred income represents the fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network. These fees are received upfront and revenue is recognised over ten years.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the deferred income included an amount of RMB139,434,000 which was related to the balance of fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network at the time when the 50% equity interests of Shanghai Dazhong Gas was transferred from Shanghai Municipal Assets Management Company to the Company pursuant to a share transfer agreement in 2001. This balance remained unsettled as there was a dispute as to the ownership of such balance and the related interest income of RMB8,944,000 which was accounted for as "other payables".

42. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracts in progress at the end of reporting period:				
Contract costs incurred plus recognised profits less recognised losses	264,282	314,166	256,272	286,009
Progress billings	(626,262)	(783,339)	(692,885)	(740,020)
	<u>(361,980)</u>	<u>(469,173)</u>	<u>(436,613)</u>	<u>(454,011)</u>
Represented by:				
Due to customers included in current liabilities	<u>(361,980)</u>	<u>(469,173)</u>	<u>(436,613)</u>	<u>(454,011)</u>

43. EMPLOYEE DEFINED BENEFITS

One of the subsidiaries of the Company pays supplementary pension subsidies and other post-employment obligations to its retired employees in the PRC. In addition, the Group was committed to make periodic benefits payments to certain former employees who were terminated or early retired in accordance with various employee benefit scheme adopted by the Group.

The plan exposes the Group to actuarial risks such as interest rate risk, benefit risk and staff turnover rate risk.

Interest risk	The present value of the defined benefit plan obligation is calculated using a discount rate determined by reference to government bond yields. A decrease in the bond interest rate will increase the plan liability.
Benefit risk	The present value of the defined benefit plan obligation is calculated by reference to the future benefits of plan participants. As such, an increase in the benefits of the plan participants will increase the plan liability.
Staff turnover rate risk	The present value of the defined benefit plan obligation is calculated by reference to the future staff turnover rate of plan participants. As such, an increase in the average staff turnover of the plan participants will increase the plan liability.

The most recent actuarial valuations of the present value of the defined benefit obligations as at 31 December 2013, 2014 and 2015 and 30 June 2016 were carried out by an independent firm of actuaries, Towers Watson, which is a global advisory, broking and solutions company. The present value of the defined benefit obligations, and the related current service cost and past cost were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Discount rate	4.75%	3.75%	3.00%	3.25%
Early-retiree's salary and supplemental benefit inflation rate	8.00%	8.00%	8.00%	8.00%
Resignation staff turnover rates	0.00%	0.00%	0.00%	0.00%

Amounts recognised in profit or loss and other comprehensive income in respect of these defined benefit plans are as follows:

Group

	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
Cost	RMB'000	RMB'000	RMB'000	RMB'000
Service cost				
Current service cost	457	365	491	289
Interest cost	1,391	1,568	1,367	613
Components of defined benefit costs recognised in profit or loss	1,848	1,933	1,858	902
Remeasurement on the net defined benefit obligations:				
Actuarial (gain)/losses arising from experience adjustments	(4,178)	4,100	4,802	(3,026)
Components of defined benefit costs recognised in other comprehensive income	(4,178)	4,100	4,802	(3,026)
Total	(2,330)	6,033	6,660	(2,124)

The expense for the year is included in the employee benefits expense in profit or loss. The remeasurement of the net defined benefit obligations is included in other comprehensive income.

The amount included in the consolidated statements of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Present value of unfunded defined benefit obligations	33,803	37,541	42,017	38,825
Net liability arising from defined benefit obligations	33,803	37,541	42,017	38,825
Less: Amount due within one year	(2,295)	(2,261)	(2,198)	(2,198)
Amount due after one year	31,508	35,280	39,819	36,627

Movements in the present value of the retirement and supplemental benefit obligations during the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	38,067	33,803	37,541	42,017
Current service cost	457	365	491	289
Interest cost	1,391	1,568	1,367	613
Remeasurement (gains)/losses:				
Actuarial (gain)/losses arising from experience adjustments	(4,178)	4,100	4,802	(3,026)
Benefits paid	(1,934)	(2,295)	(2,184)	(1,068)
At end of the year/period	33,803	37,541	42,017	38,825

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, benefit rate and staff turnover rate. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate on defined benefit obligation increases (decreases) by 1%, the defined benefit obligation would decrease by RMB3,419,000 (increase by RMB4,172,000), decrease by RMB4,100,000 (increase by RMB5,067,000), decrease by RMB4,772,000 (increase by RMB5,950,000) and decrease by RMB4,718,000 (increase by RMB5,884,000) for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively.
- If the benefit rate increases (decreases) by 1%, the defined benefit obligation would increase by RMB211,000 (decrease by RMB198,000), increase by RMB198,000 (decrease by RMB187,000), increase by RMB200,000 (decrease by RMB189,000) and increase by RMB169,000 (decrease by RMB160,000) for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively.
- If the staff turnover rate increases by 1%, the defined benefit obligation would increase by RMB767,000, increase by RMB927,000, increase by RMB1,063,000 and increase by RMB1,049,000 for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligations liability recognised in the statement of financial position.

There was no change in the method and assumptions used in preparing the sensitivity analysis from prior year.

The average duration of the defined benefit obligation as at 31 December 2013, 2014, 2015 and 30 June 2016 are 32 years, 31 years, 30 years and 30 years respectively. These numbers can be analysed as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Civil retirees	5.3 years	5.0 years	4.7 years	4.8 years
Retired members	21.0 years	20.6 years	20.0 years	19.7 years
Current staff	39.0 years	39.1 years	39.3 years	39.1 years

44. PROVISION FOR RESTORATION

Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	12,310	14,569	17,152	19,486
Add: Provision	2,259	2,583	2,334	2,012
At end of the year/period	<u>14,569</u>	<u>17,152</u>	<u>19,486</u>	<u>21,498</u>

The provision for restoration costs represented Director's estimated assets retirement obligations relating to the wastewater treatment operation and public infrastructure projects.

45. SHARE CAPITAL

Group and Company

	Number of ordinary shares	Authorised shares	Issued and paid shares
		<i>RMB'000</i>	<i>RMB'000</i>
As 1 January 2013, 31 December 2013, 1 January 2014, 31 December 2014 and 1 January 2015	1,644,869,783	1,644,870	1,644,870
Issue of bonus shares of every 10 shares for 5 bonus shares	<u>822,434,892</u>	<u>822,435</u>	<u>822,435</u>
At 31 December 2015, 1 January 2016 and 30 June 2016	<u>2,467,304,675</u>	<u>2,467,305</u>	<u>2,467,305</u>

Pursuant to the special resolution passed at the annual general meeting of the Company on 12 May 2015, issue of bonus shares to all the shareholders of the Company on the basis of five new shares (the "Bonus Shares") for every then existing ten shares of the Company held by the member on the register of members of the Company was approved on 26 May 2015. The Bonus Shares rank pari passu in all respects with the existing shares of the Company. Accordingly, a total number of 822,434,892 Bonus Shares were issued on 27 May 2015.

46. RESERVES

Company

	Capital reserve (note (a))	Statutory reserve (note (b))	Investment revaluation reserve (note (d))	Other reserve (note (e))	Retained earnings (note (f))	Reserve total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	65,517	351,329	176,666	553,171	802,957	1,949,640
Profit for the year	–	–	–	–	140,032	140,032
Other comprehensive income for the year:						
Share of other comprehensive income of associates	–	–	–	(24,459)	–	(24,459)
Change in fair value of available-for-sale financial assets	–	–	(53,778)	–	–	(53,778)
Total comprehensive income for the year	–	–	(53,778)	(24,459)	140,032	61,795
2012 final dividend paid (note 17)	–	–	–	–	(115,402)	(115,402)
Appropriation to statutory reserve	–	14,004	–	–	(14,004)	–
At 31 December 2013 and 1 January 2014	65,517	365,333	122,888	528,712	813,583	1,896,033
Profit for the year	–	–	–	–	274,940	274,940
Other comprehensive income for the year:						
Share of other comprehensive income of associates	–	–	–	104,095	–	104,095
Change in fair value of available-for-sale financial assets	–	–	136,617	–	–	136,617
Total comprehensive income for the year	–	–	136,617	104,095	274,940	515,652
2013 final dividend paid (note 17)	–	–	–	–	(115,469)	(115,469)
Appropriation to statutory reserve	–	27,494	–	–	(27,494)	–
Others	–	–	–	723	–	723
At 31 December 2014 and 1 January 2015	65,517	392,827	259,505	633,530	945,560	2,296,939

	Capital reserve (note (a))	Statutory reserve (note (b))	Investment revaluation reserve (note (d))	Other reserve (note (e))	Retained earnings (note (f))	Reserve total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	-	-	-	-	354,017	354,017
Other comprehensive income for the year:						
Share of other comprehensive income of associates	-	-	-	881,667	-	881,667
Change in fair value of available-for-sale financial assets	-	-	(16,683)	-	-	(16,683)
Total comprehensive income for the year	-	-	(16,683)	881,667	354,017	1,219,001
Issue of bonus shares (note 45)	-	-	-	-	(822,435)	(822,435)
2014 final dividend paid (note 17)	-	-	-	-	(57,422)	(57,422)
Appropriation to statutory reserve	-	35,135	-	-	(35,135)	-
Others	-	-	-	4,332	-	4,332
At 31 December 2015	<u>65,517</u>	<u>427,962</u>	<u>242,822</u>	<u>1,519,529</u>	<u>384,585</u>	<u>2,640,415</u>
At 31 December 2015 and 1 January 2016	65,517	427,962	242,822	1,519,529	384,585	2,640,415
Profit for the period	-	-	-	-	163,523	163,523
Other comprehensive income for the period:						
Share of other comprehensive income of associates	-	-	-	(37,282)	-	(37,282)
Change in fair value of available-for-sale financial assets	-	-	(55,569)	-	-	(55,569)
Total comprehensive income for the period	-	-	(55,569)	(37,282)	163,523	70,672
2015 final dividend paid (note 17)	-	-	-	-	(148,038)	(148,038)
Others	-	-	-	370	-	370
At 30 June 2016	<u>65,517</u>	<u>427,962</u>	<u>187,253</u>	<u>1,482,617</u>	<u>400,070</u>	<u>2,563,419</u>

Notes:

(a) Capital reserve:

The amount represents capital contribution in excess of nominal value of share capital.

(b) Statutory reserve:

The amount represents the legal requirement for certain level of operating funds set aside from retained earnings for operating use.

(c) Exchange reserve:

The amount represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

(d) Investment revaluation reserve:

The amount represents cumulative net gains and losses recognised from revaluation of available-for-sale financial assets.

(e) Other reserve:

The amount represents net amount from share of other comprehensive income of associates.

(f) Retained earnings:

Cumulative net gains and losses recognised in profit or loss.

47. COMMITMENTS**(a) Operating lease commitments****Group and Company***Operating leases – lessee*

Except for the prepaid premium for land leases, the Group leases certain of its land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 1 to 15 years.

The total future minimum lease payments under non-cancellable operating leases, which the Group is a lessee are as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	658	661	4,801	2,645
In the second to fifth year	2,770	2,838	2,909	2,945
After the fifth year	8,154	7,426	6,664	6,283
	<u>11,582</u>	<u>10,925</u>	<u>14,374</u>	<u>11,873</u>

Group*Operating leases – lessor*

As the end of each reporting date, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of the investment properties and equipments are as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	2,907	4,100	5,500	7,202
In the second to fifth year	10,794	11,073	12,750	15,415
After the fifth year	25,839	23,107	25,244	23,731
	<u>39,540</u>	<u>38,280</u>	<u>43,494</u>	<u>46,348</u>

(b) Capital commitments

Capital commitments not provided for in the financial statements were as follows:

	Notes	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
In respect of:					RMB'000
Share transfer agreement	(i)	99,795	99,795	99,795	51,678
Capital injection in subsidiary	(ii)	–	161,729	–	–
Capital injection in subsidiary	(iii)	–	349,566	221,366	–

Notes:

- (i) A subsidiary of the Group, namely 上海大眾集團資本股權投資有限公司 (“the Buyer”), engaged in a share transfer agreement with 上海東方傳媒集團有限公司 (“the Seller”) on 29 April 2010 to acquire the partial of the shares held by the Seller of 華人文化產業股權投資(上海)中心有限合夥 at the consideration price of RMB250,000,000. According to the condition of the mutual agreement, the full amount should be paid upon the completion of the registration of the transfer of shares. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group in aggregate has paid RMB198,322,000 by nine installments and all shareholders have paid according to the equity interest proportion. The remaining balance of RMB51,678,000 will be paid together with other shareholders in accordance with equity interest proportion for further investment needs.
- (ii) On 9 October 2014, the Group and its associate, Dazhong Transportation Group, and a third party entered into an investment agreement to set up a new company namely Shanghai Dazhong Financial Leasing (上海大眾融資租賃有限公司) with the registered capital of RMB500,000,000, of which the Group was committed to pay RMB325,000,000. As at 31 December 2014, the Group has paid, in aggregate, RMB163,271,000 and the remaining amount was fully paid during the year ended 31 December 2015.
- (iii) On 8 August 2014, the Company set up a new company in Shanghai namely Shanghai Dazhong Asset Management Co., Ltd. (上海大眾資產管理有限公司) with registered capital of RMB500,000,000. As at 31 December 2014 and 31 December 2015, the Company has paid, in aggregate, RMB150,434,000 and RMB278,634,000 respectively and the remaining amount was fully paid during the six months ended 30 June 2016.

48. BUSINESS ACQUISITION

On 29 June 2016, the Group acquired 100% of the equity interests of Shanghai Dazhong Transportation Commerce, a company whose principal activity is provision of payment services. The acquisition was made with the aims to expand the Group's business.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	1,515	
Long-term prepayments	397	
Trade receivables	369	
Prepayments and other receivables	14,215	
Cash and cash equivalents	140,292	
Other current assets	372	
Other current liabilities	(60,358)	
	<u> </u>	96,802
Cash consideration paid		(98,114)
Goodwill (note 23)		<u> </u> <u> </u> 1,312
Cash flow:		
Cash payment	98,114	
Cash and cash equivalents acquired	(140,292)	
Net cash inflow arising from acquisition	<u> </u> <u> </u> (42,178)	

The fair value of trade receivables amounted to approximately RMB369,000. In the opinion of the Directors, no receivable is expected to be uncollectible.

The goodwill of RMB1,312,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Since the acquisition date, Shanghai Dazhong Transportation Commerce has not yet recorded any revenue and profit before income tax expense. If the acquisition had occurred on 1 January 2016, Group's revenue and profit before income tax expense for the six months ended 30 June 2016 would have been RMB2,545,506,000 and RMB418,959,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future performance.

The acquisition-related costs were not material, and have been expensed and are included in administrative expenses.

49. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group entered into the following significant transactions with its related parties as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
<i>Shanghai Gas Group</i>					
Purchase of piped gas	2,342,591	2,392,130	2,462,266	1,382,463	1,450,223
Rental expenses	12,680	11,530	5,660	2,830	3,000
Gas hotline service expenses	3,500	3,800	4,000	1,900	–
<i>Associates</i>					
Interest income	469	4,827	4,827	2,413	2,413
Rental expenses	1,045	3,760	4,536	2,268	2,186
Subcontracting fee expenses	2,406	–	–	–	–
<i>Shanghai Gas Group's affiliate</i>					
Interest expense	3,421	5,404	14,336	7,210	5,373

The above transactions were conducted in the normal course of the Group's business and were determined based on mutually agreed prices and terms with reference to the market price at the time of the transaction.

Key management remuneration

The Group considered the Directors, supervisors and others as key management.

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries and other benefits	14,785	13,122	14,724	8,666	12,681
Pension scheme contributions	1,010	1,200	1,250	584	612
Total compensation paid to key management personnel	15,795	14,322	15,974	9,250	13,293

As the end of each reporting date, apart from the disclosures already made in investments in associates, trade and bills payable and other payables in notes 26, 37, 39 and 40 respectively, the balances with its related parties are listed as follows:

		As at 31 December			As at 30 June
		2013	2014	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000
<i>Other receivables</i>					
Xuhui Onlly Micro-credit	(i)	572	–	–	88
Shanghai Gas Group	(ii)	3,278	3,693	2,798	2,798
Shenzhen Capital Group	(iii)	469	5,296	469	2,883
<i>Other payables</i>					
Dazhong Building	(iv)	–	307	307	9

- (i) Xuhui Onlyly Micro-credit is an associate of the Group.
- (ii) Shanghai Gas Group is another major shareholder of the Company and also a shareholder of Shanghai Dazhong Gas.
- (iii) Shenzhen Capital Group is an associate of the Group.
- (iv) Shanghai Dazhong Building Co., Ltd. ("**Dazhong Building**") is a subsidiary of an associate of the Group, namely Dazhong Transportation Group.

50. FINANCIAL INSTRUMENTS BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
<i>Financial assets</i>				
Financial assets at fair value through profit or loss – held for trading				
– Listed investments	181	47,155	106,333	64,373
Loans and receivables				
– Due from an associate	60,335	60,335	60,335	60,335
– Trade and bills receivables	972,988	887,547	874,074	819,036
– Lease receivables	–	–	752,929	896,915
– Amount due from grantor	751,121	719,550	686,306	669,761
– Loan receivables	9,900	183,879	200,811	202,709
– Other receivables	29,199	28,687	169,562	140,099
– Pledged deposits	4,619	35,302	3,397	158,000
– Cash and cash equivalents	959,450	1,530,079	1,549,655	1,946,288
Available-for-sale financial assets				
– Listed investments	286,081	465,317	522,423	479,302
– Unlisted investments	479,146	321,055	311,306	403,350
– Investment-linked deposits	30,000	28,000	85,000	60,000
<i>Financial liabilities</i>				
Financial liabilities measured at amortised cost				
– Borrowings	835,545	1,124,052	1,936,419	2,721,038
– Trade and bills payables	956,465	1,377,159	1,111,455	1,475,674
– Other payables	555,742	571,181	713,845	647,625
– Corporate bonds payable	1,582,360	1,586,208	1,590,465	1,592,680

Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Financial assets</i>				
Financial assets at fair value through profit or loss – held for trading				
– Listed investments	–	56	42	36
Loans and receivables				
– Amounts due from subsidiaries	705,590	679,679	638,494	820,916
– Amount due from an associate	60,335	60,335	60,335	60,335
– Trade and bills receivables	111,136	79,383	47,630	31,753
– Other receivables	1,605	15,001	104,013	65,345
– Cash and cash equivalents	109,612	279,655	372,617	471,488
Available-for-sale financial assets				
– Listed investments	207,104	382,729	360,486	327,795
– Unlisted investments	45,358	21,799	21,799	45,727
<i>Financial liabilities</i>				
Financial liabilities measured at amortised cost				
– Borrowings	410,000	512,000	668,900	1,059,200
– Other payables	93,464	44,991	42,208	80,282
– Amounts due to subsidiaries	95,771	399,962	358,917	617,890
– Corporate bonds payable	1,582,360	1,586,208	1,590,465	1,592,680

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include amounts due from/to subsidiaries, amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables, other payables and corporate bonds payable.

In the opinion of the Directors, the carrying value of amounts due from/to subsidiaries, amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables, other payables and corporate bonds payable are approximated to fair value.

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

(c) Fair value and fair value hierarchy of financial instruments of the Group

Group

	Fair value measurement using Quoted prices in active markets (Level 1)			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale listed investments	286,081	465,317	522,423	479,302
Equity and debt investments at fair value through profit or loss	181	47,155	106,333	64,373

51. FINANCIAL RISK

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business.

The Group's principal financial instruments mainly include trade and bills receivables, pledged deposits, cash and cash equivalents and trade and bills payables, which arise directly from its operations. The Group has other financial assets and liabilities such as amounts due from/to subsidiaries/associates, interest-bearing bank borrowings, deposits and other receivables, and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board reviews and agrees policies for managing each of the risks which are summarised below:

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank loans and corporate bonds. The Group does not use derivative financial instruments to hedge its interest rate risk. With all other variable held constant, the Group's profit after tax and equity is affected through the impact on floating rate borrowings, as follows:

Group

	Increase/(decrease) on profit after tax and equity			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Increase by 25 basis points	4,154	4,251	5,696	6,365
Decrease by 25 basis points	(4,154)	(4,251)	(5,696)	(6,365)

Foreign currency risk

The Group's businesses are located in the Mainland China and the majority of transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the RMB/US\$ and RMB/HK\$ exchange rates, with all other variables held constant, of the Group's profit after tax and equity.

Group

	Increase/(decrease) on profit after tax and equity			
	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB/US\$				
Strengthened 5%	(4,162)	(8,913)	(7,696)	(7,087)
Weakened 5%	4,162	8,913	7,696	7,087
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
RMB/HK\$				
Strengthened 5%	(661)	(2,969)	(2,976)	(2,373)
Weakened 5%	661	2,969	2,976	2,373
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis; therefore, the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, the composition of which is disclosed in note 27, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Concentrations of credit risk exist when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

Group

	On demand	Within 1 year	Within 2 to 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2013				
Interest-bearing bank borrowings	–	442,251	460,681	902,932
Trade and bills payables	–	956,465	–	956,465
Other payables	518,432	–	37,310	555,742
Corporate bonds payable	–	114,846	1,874,655	1,989,501
	<u>518,432</u>	<u>1,513,562</u>	<u>2,372,646</u>	<u>4,404,640</u>
At 31 December 2014				
Interest-bearing bank borrowings	–	771,587	427,644	1,199,231
Trade and bills payables	–	1,377,159	–	1,377,159
Other payables	533,871	–	37,310	571,181
Corporate bonds payable	–	110,135	1,768,368	1,878,503
	<u>533,871</u>	<u>2,258,881</u>	<u>2,233,322</u>	<u>5,026,074</u>
At 31 December 2015				
Interest-bearing bank borrowings	–	1,421,652	610,758	2,032,410
Trade and bills payables	–	1,111,455	–	1,111,455
Other payables	619,750	–	94,095	713,845
Corporate bonds payable	–	90,552	1,682,074	1,772,626
	<u>619,750</u>	<u>2,623,659</u>	<u>2,386,927</u>	<u>5,630,336</u>
At 30 June 2016				
Interest-bearing bank borrowings	–	2,378,226	417,224	2,795,450
Trade and bills payables	–	1,475,674	–	1,475,674
Other payables	530,630	–	116,995	647,625
Corporate bonds payable	–	90,235	1,639,515	1,729,750
	<u>530,630</u>	<u>3,944,135</u>	<u>2,173,734</u>	<u>6,648,499</u>

The amount included above for financial guarantee contracts is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the Relevant Periods, the Group considers that it is more likely than not that no amount will be payable under the arrangement.

Company

	On demand	Within 1 year	Within 2 to 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2013				
Interest-bearing bank borrowings	–	423,055	–	423,055
Other payables	93,464	–	–	93,464
Amounts due to subsidiaries	95,771	–	–	95,771
Corporate bonds payable	–	114,846	1,874,655	1,989,501
	<u>189,235</u>	<u>537,901</u>	<u>1,874,655</u>	<u>2,601,791</u>

	On demand	Within 1 year	Within 2 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2014				
Interest-bearing bank borrowings	–	529,791	–	529,791
Other payables	44,991	–	–	44,991
Amounts due to subsidiaries	399,962	–	–	399,962
Corporate bonds payable	–	110,135	1,768,368	1,878,503
	<u>444,953</u>	<u>639,926</u>	<u>1,768,368</u>	<u>2,853,247</u>
At 31 December 2015				
Interest-bearing bank borrowings	–	690,945	–	690,945
Other payables	42,208	–	–	42,208
Amounts due to subsidiaries	358,917	–	–	358,917
Corporate bonds payable	–	90,552	1,682,074	1,772,626
	<u>401,125</u>	<u>781,497</u>	<u>1,682,074</u>	<u>2,864,696</u>
At 30 June 2016				
Interest-bearing bank borrowings	–	1,082,283	–	1,082,283
Other payables	80,282	–	–	80,282
Amounts due to subsidiaries	617,890	–	–	617,890
Corporate bonds payable	–	90,235	1,639,515	1,729,750
	<u>698,172</u>	<u>1,172,518</u>	<u>1,639,515</u>	<u>3,510,205</u>

52. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a net debt to equity ratio, which is net debt divided by capital. The Group's net debt consists of interest-bearing bank loans and other borrowings and related party loans, less cash and cash equivalents. Capital represents total equity.

53. LITIGATION

In 2009, Shanghai Dazhong Gas, one of the Company's subsidiaries, announced its intention to sell its 49% equity interests in Nanchang Gas Co., Ltd. ("**Nanchang Gas**"). On 8 December 2009, a sales and purchase agreement was signed with China Resources Gas (Group) Co., Ltd. ("**China Resources Gas**") (華潤燃氣(集團)有限公司) to sell the 49% equity interests in Nanchang Gas to China Resources Gas for a consideration of RMB698,000,000. The changes in registration was completed on 24 March 2011 and on 29 June 2011, Shanghai Dazhong Gas has received HKD792,980,000 consideration price from China Resources Gas.

Upon completion of the transfer, Shanghai Dazhong Gas requested China Resources Gas Limited to compensate its loss in exchange difference and on share of profit from Shanghai Dazhong Gas due to the delay in actual payment in Hong Kong dollar and delay on the completion of changes in registration. On 28 April 2013, the Shanghai Arbitration Commission concluded that China Resources Gas needed to pay HKD77,745,100 (equivalent to RMB61,372,000) to Shanghai Dazhong Gas as compensation. This compensation income was included in the financial statements of Shanghai Dazhong Gas for the year ended 31 December 2013.

On 5 November 2013, China Resources Gas applied to the Shanghai Court for a compensation claim due to the delay of transfer of shares and the operation license. On 1 July 2015, both parties agreed to resolve the issue by settlement and signed a settlement agreement. Shanghai Dazhong Gas agreed to pay RMB80,000,000 to China Resources Gas to settle the dispute. The amount was settled on 1 July 2015. This compensation loss was included in the financial statements of Shanghai Dazhong Gas for the year ended 31 December 2015.

54. EVENTS AFTER THE REPORTING PERIOD

On 14 July 2016, one of the Group's subsidiaries entered into two share transfer agreements to dispose 51% of each of its two wholly-owned subsidiaries, namely Pizhou Fountainhead Water Operation Co., Ltd. and Xuzhou Fountainhead Sewage Co., Ltd., both of which were engaged in wastewater treatment business, at the cash considerations of RMB14,510,000 and RMB12,236,000 respectively. As at the reporting date, the processes of share transfer were completed. Subsequent to the disposal, these entities become associates of the Group.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2016.

Yours faithfully,

BDO Limited

Certified Public Accountants

Alfred Lee

Practising Certificate Number P04960

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

TO THE BOARD OF DIRECTORS OF SHANGHAI DAZHONG PUBLIC UTILITIES (GROUP) CO., LTD.

(A joint stock limited liability company incorporated in the People's Republic of China)

Introduction

We have reviewed the condensed consolidated financial statements of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) set out on pages IB-2 to IB-43, which comprise the condensed consolidated statement of financial position as at 30 September 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the nine months ended 30 September 2016, and certain explanatory notes. The directors are responsible for the preparation and fair presentation of the condensed consolidated financial statements in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

BDO Limited

Certified Public Accountants

Alfred Lee

Practising Certificate Number P04960

Hong Kong, 23 November 2016

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

	Notes	Nine months ended 30 September	
		2016	2015
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	5	3,457,350	3,534,891
Cost of sales		(2,939,003)	(2,877,176)
Gross profit		518,347	657,715
Other income and gains	6	18,633	37,918
Selling and distribution costs		(102,873)	(94,338)
Administrative expenses		(222,324)	(261,636)
Investment income and gains, net	8	138,542	36,129
Loss on disposal of subsidiaries	7	(987)	–
Gain on partial disposal of equity interests in an associate	17	–	216,386
Compensation loss in connection with disposal of a subsidiary in prior year	37	–	(80,000)
Finance costs	9	(132,935)	(132,468)
Share of results of associates	17	346,833	223,076
Profit before income tax expense	11	563,236	602,782
Income tax expense	12	(61,032)	(56,635)
Profit for the period		502,204	546,147
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		(147,855)	328,544
Change in fair value of available-for-sale financial assets		(71,928)	(50,905)
Exchange differences on translating foreign operations		(5,894)	5,839
Items that will not be reclassified to profit or loss:			
Re-measurement gains/(losses) on defined benefit obligations		3,026	(1,820)
Other comprehensive income for the period, net of tax		(222,651)	281,658
Total comprehensive income for the period		279,553	827,805

	<i>Notes</i>	Nine months ended 30 September	
		2016	2015
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Profit for the period			
attributable to:			
Owners of the Company		443,771	454,528
Non-controlling interests		58,433	91,619
		<u>502,204</u>	<u>546,147</u>
Total comprehensive income			
for the period			
attributable to:			
Owners of the Company		219,607	737,096
Non-controlling interests		59,946	90,709
		<u>279,553</u>	<u>827,805</u>
Earnings per share			
Basic and diluted	14	<u>RMB0.18</u>	<u>RMB0.18</u>

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016

		As at 30 September	As at 31 December
	<i>Notes</i>	2016	2015
		<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment	15	4,387,609	4,390,369
Investment properties		65,499	67,147
Payments for leasehold land held for own use under operating leases		69,928	80,835
Goodwill	34	1,312	–
Intangible assets	16	337,701	183,542
Investments in associates	17	4,710,310	4,082,210
Available-for-sale financial assets	18	821,319	833,729
Trade and bills receivables	19	507,376	544,600
Lease receivables	20	441,621	340,144
Amount due from grantor	21	627,082	653,216
Long-term prepayment		20,050	3,000
Deferred tax assets	22	21,903	19,618
Total non-current assets		<u>12,011,710</u>	<u>11,198,410</u>
Current assets			
Inventories		25,913	22,343
Amount due from an associate	17	60,335	60,335
Trade and bills receivables	19	301,811	329,474
Lease receivables	20	534,405	412,785
Loan receivables	23	214,193	200,811
Prepayments and other receivables		126,496	178,933
Amount due from grantor	21	34,408	33,090
Financial assets at fair value through profit or loss	24	70,730	106,333
Available-for-sale financial assets	18	184,017	85,000
Pledged deposits	25	158,000	3,397
Cash and cash equivalents	25	2,283,876	1,549,655
Total current assets		<u>3,994,184</u>	<u>2,982,156</u>

		As at	As at
		30 September	31 December
	<i>Notes</i>	2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Current liabilities			
Borrowings	26	2,242,731	1,497,709
Short-term bonds payable	27	300,169	–
Trade and bills payables	28	1,563,863	1,111,455
Other payables	29	741,934	734,666
Deferred income	30	209,950	203,076
Amounts due to customers for contract work	31	536,743	436,613
Employee defined benefits		2,161	2,198
Current tax liabilities		54,719	22,522
Total current liabilities		<u>5,652,270</u>	<u>4,008,239</u>
Net current liabilities		<u>(1,658,086)</u>	<u>(1,026,083)</u>
Total assets less current liabilities		<u>10,353,624</u>	<u>10,172,327</u>
Non-current liabilities			
Borrowings	26	416,334	438,710
Corporate bonds payable	27	1,593,857	1,590,465
Other payables	29	195,467	105,995
Deferred income	30	1,118,550	1,078,406
Employee defined benefits		36,664	39,819
Provision for restoration		16,639	19,486
Deferred tax liabilities	22	96,195	120,260
Total non-current liabilities		<u>3,473,706</u>	<u>3,393,141</u>
Net assets		<u>6,879,918</u>	<u>6,779,186</u>
Equity			
Share capital	32	2,467,305	2,467,305
Reserves		3,320,063	3,250,759
		5,787,368	5,718,064
Non-controlling interests		<u>1,092,550</u>	<u>1,061,122</u>
Total equity		<u>6,879,918</u>	<u>6,779,186</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

	Equity attributable to owners of the Company									
	Share capital	Capital reserve	Statutory reserve	Exchange reserve	Investment revaluation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unaudited										
1 January 2016	2,467,305	169,240	669,878	5,942	293,393	1,451,247	661,059	5,718,064	1,061,122	6,779,186
Profit for the period	-	-	-	-	-	-	443,771	443,771	58,433	502,204
Other comprehensive income for the period:										
Share of other comprehensive income of associates	-	-	-	-	-	(147,855)	-	(147,855)	-	(147,855)
Change in fair value of available-for-sale financial assets	-	-	-	-	(71,928)	-	-	(71,928)	-	(71,928)
Exchange differences on translating foreign operations	-	-	-	(5,894)	-	-	-	(5,894)	-	(5,894)
Re-measurement gains on defined benefit obligations	-	-	-	-	-	1,513	-	1,513	1,513	3,026
Total comprehensive income for the period	-	-	-	(5,894)	(71,928)	(146,342)	443,771	219,607	59,946	279,553
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	600	600
2015 final dividend paid (note 13)	-	-	-	-	-	-	(148,038)	(148,038)	-	(148,038)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(29,118)	(29,118)
Others	-	(2,265)	-	-	-	-	-	(2,265)	-	(2,265)
At 30 September 2016	2,467,305	166,975	669,878	48	221,465	1,304,905	956,792	5,787,368	1,092,550	6,879,918
Unaudited										
At 1 January 2015	1,644,870	207,303	617,342	(874)	249,775	501,275	1,129,785	4,349,476	957,992	5,307,468
Profit for the period	-	-	-	-	-	-	454,528	454,528	91,619	546,147
Other comprehensive income for the period:										
Share of other comprehensive income of associates	-	-	-	-	-	328,544	-	328,544	-	328,544
Change in fair value of available-for-sale financial assets	-	-	-	-	(50,905)	-	-	(50,905)	-	(50,905)
Exchange differences on translating foreign operations	-	-	-	5,839	-	-	-	5,839	-	5,839
Re-measurement losses on defined benefit obligations	-	-	-	-	-	(910)	-	(910)	(910)	(1,820)
Total comprehensive income for the period	-	-	-	5,839	(50,905)	327,634	454,528	737,096	90,709	827,805
Issue of bonus shares (note 32)	822,435	-	-	-	-	-	(822,435)	-	-	-
Capital injection from non-controlling interest	-	-	-	-	-	-	-	-	87,500	87,500
2014 final dividend paid (note 13)	-	-	-	-	-	-	(57,422)	(57,422)	-	(57,422)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(14,353)	(14,353)
Others	-	3,907	-	-	-	-	-	3,907	-	3,907
At 30 September 2015	2,467,305	211,210	617,342	4,965	198,870	828,909	704,456	5,033,057	1,121,848	6,154,905

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Profit before income tax expense	563,236	602,782
Adjustments for:		
Finance costs	132,935	132,468
Share of results of associates	(346,833)	(223,076)
Amortisation on payments for leasehold land held for own use under operating leases	1,577	1,688
Amortisation on intangible assets	16,769	7,573
Depreciation of property, plant and equipment	238,252	226,847
Depreciation of investment properties	1,649	1,649
Impairment loss on property, plant and equipment	–	51,712
Impairment loss on trade receivables	589	621
Impairment loss on loan receivables	418	2,149
Impairment loss on prepayments and other receivables	219	916
Loss on disposal of property, plant and equipment	8,161	459
Loss on written off of intangible assets	3,386	–
Loss on disposal of subsidiaries	987	–
Gain on partial disposal of equity interests in an associate	–	(216,386)
Compensation loss in connection with disposal of a subsidiary in prior year	–	80,000
Loss/(gain) on disposal of financial assets at fair value through profit or loss – held for trading	5,774	(5,106)
Gain on disposal of available-for-sale financial assets	(13,510)	(28,288)
Gain on disposal of government bonds	(1,727)	(3,899)
Changes in fair value of financial assets at fair value through profit or loss	1,848	31,404
Dividend income	(123,687)	(26,741)
Other financial income	(7,240)	(3,499)
Exchange gain	(6,344)	(2,656)
Financial income from wastewater treatment income	(24,595)	(27,519)
Financial income from public infrastructure projects	(31,067)	(34,653)
Bank interest income	(9,944)	(12,913)
Other interest income	(3,415)	(3,416)
Others	(2,994)	2,473

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Operating profit before working capital changes	404,444	554,589
(Increase)/decrease in inventories	(3,595)	502
Decrease in trade and bills receivables	37,081	33,394
(Increase)/decrease in prepayments and other receivables	(53,706)	13,704
Increase/(decrease) in trade and bills payables	350,446	(111,517)
Decrease in other payables	(96,328)	(16,862)
Increase in deferred income	46,814	48,914
Increase/(decrease) in amounts due to customers for contract work	100,130	(51,983)
Cash generated from operations	785,286	470,741
Bank interest income	9,944	12,913
Other interest income	3,415	3,416
Income taxes paid	(31,735)	(49,068)
Net cash flows generated from operating activities	766,910	438,002

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Cash flows from investing activities		
Proceeds from disposals of investments and financial assets	261,561	416,961
Net payment in lease receivables	(177,956)	(324,083)
Net payment in loan receivables	(13,800)	(4,899)
Increase in pledged deposit	(154,603)	–
Proceeds from return on investment and financial assets	398,292	164,338
Proceeds from disposals of property, plant and equipment, intangible assets and long-term investments	233	159
Proceeds from disposals of subsidiaries, net of cash and cash equivalents disposed of	4,905	–
Proceeds from repayment of amount due from grantor	110,924	120,026
Receipt for wastewater treatment tender	100,800	–
Payment for compensation in connection with disposal of a subsidiary in prior year	–	(80,000)
Acquisition of property, plant and equipment and payments for leasehold land held for own use under operating leases	(308,643)	(395,445)
Acquisition of intangible assets	(31,101)	(5,280)
Payments for acquisition of new investments	(958,747)	(284,846)
Net cash flows used in investing activities	<u>(768,135)</u>	<u>(393,069)</u>
Cash flows from financing activities		
Acquisition of new bank borrowings	2,291,395	2,036,949
Issued of short-term bonds	300,000	–
Repayment of bank borrowings	(1,577,310)	(1,488,049)
Payments of interest expenses	(108,804)	(104,735)
Payments of final dividends	(148,038)	(57,422)
Dividends paid to non-controlling interests	(29,118)	(14,353)
Capital injection from non-controlling interests	600	87,500
Net cash flows generated from financing activities	<u>728,725</u>	<u>459,890</u>
Net increase in cash and cash equivalents	727,500	504,823
Exchange differences on translating cash flows of foreign operations	6,721	2,655
Cash and cash equivalents at beginning of period	<u>1,549,655</u>	<u>1,530,079</u>
Cash and cash equivalents at end of period	<u><u>2,283,876</u></u>	<u><u>2,037,557</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

1. CORPORATE INFORMATION

Shanghai Dazhong Public Utilities (Group) Co., Ltd. (the “**Company**”) was established in the People’s Republic of China (the “**PRC**”) on 1 January 1992 as a joint stock limited liability company. On 4 March 1993, the Company was listed on the Shanghai Stock Exchange. Its registered office and the principal place of business activities is located at No. 518, Shang Cheng Road, Pudong New District, Shanghai, the PRC and 1515 Zhongshan Road West, Shanghai, the PRC respectively.

The Company is principally engaged in investment holding. The principal business activities of its subsidiaries (together with the Company, the “**Group**”) included piped gas supply, wastewater treatment, public infrastructure projects and financial services.

In the opinion of the Directors, the immediate holding company is Shanghai Dazhong Business Management Co., Ltd. (上海大眾企業管理有限公司), a company incorporated in the PRC, and the ultimate controlling shareholder of the Company is Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會).

The unaudited condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company. All values are rounded to the nearest thousand except otherwise indicated.

The unaudited condensed consolidated financial statements have been prepared by the directors of the Company solely for the purpose of the listing of the H shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited. As a result, the condensed consolidated financial statements may not be suitable for another purpose.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“**IASB**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The significant accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the nine months ended 30 September 2016 are the same as those followed in the preparation of the Group’s consolidated financial statements for each of the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016.

The unaudited condensed consolidated financial statements should be read in conjunction with the Group’s consolidated financial statements for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair values.

The Group had net current liabilities of approximately RMB1,658,086,000 as at 30 September 2016. The Group meets its day-to-day work capital requirements through its bank borrowings. Its forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current banking facilities. The directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future, and therefore are of the view that it is appropriate to adopt the going concern basis in preparing the unaudited condensed consolidated financial statements. Further information on the Group’s bank borrowings is set out in note 26.

As at the date of this report, the IASB has issued the following new and revised International Financial Reporting Standards (“**IFRSs**”), potentially relevant to the Group’s operations which are not yet effective and have not been early adopted in preparing the unaudited condensed consolidated financial statements.

IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³
Amendments to IAS 7	Disclosure Initiative ¹
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Tax Losses ¹
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to IFRS 15	Clarification on Revenue from Contracts with Customers ²

- ¹ Effective for annual periods beginning on or after 1 January 2017
- ² Effective for annual periods beginning on or after 1 January 2018
- ³ Effective for annual periods beginning on or after 1 January 2019

Except as described below, the directors do not anticipate that the application of the new and revised IFRSs will have material impact on the Group's financial performance and position and/or on the disclosures to the Group's unaudited condensed consolidated financial statements.

IFRS 9 — Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

IFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in IAS 39 "Financial Instruments: Recognition and Measurements" and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

The directors anticipate that the application of IFRS 9 in the future will have an impact on amounts reported in respect of the Group's financial performance and financial assets (e.g. impairment on trade receivables and loan receivables) resulting from early provision of credit losses using the expected loss impairment model under IFRS 9 instead of incurred loss model under IAS 39. Currently, the directors are in the midst of assessing the financial impact of the application of IFRS 9 and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

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

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The directors anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported on revenue as the timing of revenue recognition may be affected by the new standard, and more disclosures relating to revenue is required. Currently, the directors are in the midst of assessing the financial impact of the application of IFRS 15 and a reasonable estimate of the effect will be available once the detailed review is completed.

IFRS 16 — Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statement of both lessors and lessees. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirement of IAS 16 “Property, Plant and Equipment”, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

Total operating lease commitments of the Group in respect of land and buildings and office premises as at 30 September 2016 amounted to approximately RMB10,689,000. The directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the unaudited condensed consolidated financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. The significant judgements, estimates and assumptions used in the unaudited condensed consolidated financial statements for the nine months ended 30 September 2016 are the same as those followed in the preparation of the Group’s consolidated financial statements for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

4. SEGMENT INFORMATION

The Group determines its operating segment based on the reports reviewed by the Group’s chief operating decision maker, which are the Company’s executive directors that are used to make strategic decisions.

The Group has six reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group’s reportable segments:

- Piped gas supply;
- Wastewater treatment;
- Public infrastructure projects;
- Investments;
- Transportation services; and
- Financial services.

APPENDIX IB
UNAUDITED INTERIM FINANCIAL INFORMATION
(a) Business segment

For the nine months ended 30 September 2016	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
<i>(Unaudited)</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Unaudited)</i>
Revenue from external customers	3,216,695	132,571	42,165	–	–	65,919	3,457,350
Inter-segment revenue	–	–	–	–	–	–	–
Reportable segment revenue	3,216,695	132,571	42,165	–	–	65,919	3,457,350
Reportable segment profit	86,715	43,724	20,171	364,868	108,602	45,101	669,181
Unallocated income/(expenses), net							(18,866)
Unallocated interest income							6,492
Unallocated interest expenses							(93,571)
Profit before income tax expense							563,236
Reportable segment assets	5,785,140	1,149,772	768,175	3,219,996	2,418,139	1,606,321	14,947,543
Unallocated cash and cash equivalents							854,667
Corporate assets*							203,684
Total assets							16,005,894
Reportable segment liabilities	4,279,848	150,503	272,463	440,100	–	846,227	5,989,141
Unallocated borrowings							987,300
Corporate bonds and short-term bonds payable							1,894,026
Corporate liabilities [#]							255,509
Total liabilities							9,125,976
Other segment information:							
Share of results of associates	3,632	(359)	–	234,958	108,602	–	346,833
Interest income	4,753	323	584	498	–	709	6,867
Interest expenses	9,374	3,156	7,420	3,366	–	16,048	39,364
Investment income and gains, net	–	–	–	138,542	–	–	138,542
Amortisation	1,444	16,634	–	–	–	62	18,140
Depreciation	234,828	2,244	67	–	–	499	237,638
Impairment loss on trade receivables	117	371	145	–	–	–	633
Impairment loss on loan receivables	–	–	–	–	–	418	418
Impairment loss on prepayments and other receivables	983	314	–	–	–	9	1,306
Loss on disposal of property, plant and equipment	8,153	–	–	–	–	–	8,153
Loss on written off of intangible assets	–	3,386	–	–	–	–	3,386
Loss on disposal of subsidiaries	–	987	–	–	–	–	987
Investments in associates	363,938	26,286	–	1,901,947	2,418,139	–	4,710,310
Additions to non-current assets	378,872	120,063	–	–	–	14	498,949

* Corporate assets consisted of goodwill, investment property, property, plant and equipment, amount due from an associate, intangible assets and prepayments and other receivables for the amounts approximately RMB1.3 million, RMB65.5 million, RMB6.0 million, RMB60.3 million, RMB0.2 million and RMB70.4 million respectively.

Other unallocated corporate liabilities consisted of deferred tax liabilities, other payables, salary payables, dividend and interest payable, accounts payable and receipts in advance for the amounts approximately RMB59.0 million, RMB78.3 million, RMB21.0 million, RMB22.2 million, RMB1.6 million and RMB73.4 million respectively.

APPENDIX IB
UNAUDITED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2015	Piped gas supply	Wastewater treatment	Public infrastructure projects	Investments	Transportation services	Financial services	Segment total
<i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Revenue from external customers	3,341,044	119,223	43,894	–	–	30,730	3,534,891
Inter-segment revenue	–	–	–	–	–	–	–
Reportable segment revenue	<u>3,341,044</u>	<u>119,223</u>	<u>43,894</u>	<u>–</u>	<u>–</u>	<u>30,730</u>	<u>3,534,891</u>
Reportable segment profit	<u>139,372</u>	<u>49,769</u>	<u>20,423</u>	<u>159,050</u>	<u>315,364</u>	<u>18,474</u>	<u>702,452</u>
Unallocated income/(expenses), net							(7,071)
Unallocated interest income							8,033
Unallocated interest expenses							(100,632)
Profit before income tax expense							<u>602,782</u>
Other segment information:							
Share of results of associates	–	–	–	124,098	98,978	–	223,076
Interest income	5,983	758	476	251	–	828	8,296
Interest expenses	12,719	4,736	10,795	175	–	3,411	31,836
Investment income and gains, net	–	–	–	36,129	–	–	36,129
Gain on partial disposal of equity interests in an associate	–	–	–	–	216,386	–	216,386
Amortisation	1,418	7,660	–	–	–	–	9,078
Depreciation	222,320	4,183	67	–	–	480	227,050
Impairment loss/(reversal of impairment loss) on trade receivables	532	(63)	219	–	–	–	688
Impairment loss on loan receivables	–	–	–	–	–	2,149	2,149
Impairment loss/(reversal of impairment loss) on prepayments and other receivables	933	69	–	–	–	(2)	1,000
Impairment loss on property, plant and equipment	51,712	–	–	–	–	–	51,712
Loss on disposal of property, plant and equipment	457	–	–	–	–	–	457
Compensation loss in connection with disposal of a subsidiary in prior year	–	–	–	80,000	–	–	80,000

(b) Geographic information

Geographical information is not presented since all of the Group's revenue from external customers is generated in the PRC. The non-current asset information is based on the location of the assets and excludes financial instruments and deferred tax assets. Nearly all of the non-current assets of the Group are located in the PRC, which is the Company's country of domicile.

(c) Information about major customers

The Group has a number of customers and there is no significant revenue derived from specific external customers during the nine months ended 30 September 2016 (2015: nil).

5. REVENUE

Revenue represents the net invoiced value of goods sold, after discounts and returns; the value of services rendered; an appropriate proportion of contract revenue of construction contracts; and interest income earned from provision of finance during the nine months ended 30 September 2016.

An analysis of revenue is as follows:

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Piped gas supply:		
Sale of gas fuel	2,699,455	2,741,758
Gas pipeline construction income	253,598	345,276
Gas connection income (note 30)	163,203	155,143
Sale of related products	100,439	98,867
Wastewater treatment:		
Operations income	107,976	91,704
Financial income	24,595	27,519
Public infrastructure projects:		
Operations income	11,098	9,241
Financial income	31,067	34,653
Financial services:		
Interest income and related revenue	16,629	22,325
Financial leasing related income	49,290	8,405
	<u>3,457,350</u>	<u>3,534,891</u>

6. OTHER INCOME AND GAINS

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Bank interest income	9,944	12,913
Other interest income	3,415	3,416
Government grants	6,985	5,071
Loss on disposal of property, plant and equipment	(8,161)	(459)
Loss on written off of intangible assets	(3,386)	–
Rental income	7,972	8,144
Others	1,864	8,833
	<u>18,633</u>	<u>37,918</u>

7. DISPOSAL OF SUBSIDIARIES

On 14 July 2016, a subsidiary of the Group entered into two share transfer agreements to dispose 51% of each of its two wholly-owned subsidiaries, namely Pizhou Fountainhead Water Operation Co., Ltd. and Xuzhou Fountainhead Sewage Co., Ltd., both of which were engaged in wastewater treatment business. Subsequent to the disposal, these entities become associates of the Group. The net assets as at the date of disposal were as follows:

Pizhou Fountainhead Water Operation Co., Ltd.

	14 July 2016
	<i>RMB'000</i>
Property plant and equipment	4,934
Intangible assets	18,990
Inventories	17
Trade and bill receivables	1,295
Prepayments and other receivables	10,390
Deferred tax assets	581
Cash and cash equivalents	1,327
Borrowings	(2,484)
Trade and bill payables	(2,288)
Other payables	(590)
Provision for restoration	(2,325)
	<hr/>
	29,847
Loss on disposal of a subsidiary	(712)
	<hr/>
Total consideration	29,135
	<hr/> <hr/>
Total consideration satisfied by:	
Cash received	4,837
Consideration receivable	9,673
Fair value of equity interest retained as an associate	14,625
	<hr/>
	29,135
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration received	4,837
Cash and cash equivalents disposed of	(1,327)
	<hr/>
	3,510
	<hr/> <hr/>

Xuzhou Fountainhead Sewage Co., Ltd.

14 July 2016

	<i>RMB'000</i>
Property plant and equipment	931
Intangible assets	17,470
Inventories	8
Trade and bill receivables	642
Prepayments and other receivables	9,583
Deferred tax assets	764
Cash and cash equivalents	2,684
Borrowings	(2,750)
Trade and bill payables	(369)
Other payables	(1,375)
Provision for restoration	(3,055)
	<u>24,533</u>
Loss on disposal of a subsidiary	(275)
Total consideration	<u>24,258</u>
Total consideration satisfied by:	
Cash received	4,079
Consideration receivable	8,157
Fair value of equity interest retained as an associate	12,022
	<u>24,258</u>
Net cash inflow arising on disposal:	
Cash consideration received	4,079
Cash and cash equivalents disposed of	(2,684)
	<u>1,395</u>

8. INVESTMENT INCOME AND GAINS, NET

Nine months ended 30 September

	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Gain/(loss) on disposal of financial assets, net:		
– Financial assets at fair value through profit or loss – held for trading	(5,774)	5,106
– Available-for-sale financial assets	13,510	28,288
– Government bonds	1,727	3,899
	<u>9,463</u>	<u>37,293</u>
Change in fair value of financial assets at fair value through profit or loss	(1,848)	(31,404)
Dividend income	123,687	26,741
Other financial income	7,240	3,499
	<u>138,542</u>	<u>36,129</u>

9. FINANCE COSTS

Nine months ended 30 September

	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Interest on bank borrowings and corporate bonds	134,979	134,688
Less: Amounts capitalised (note)	(2,044)	(2,220)
	<u>132,935</u>	<u>132,468</u>

Note: Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.9% (2015: 5.84%) to expenditure on qualifying assets for the nine months ended 30 September 2016.

10. EMPLOYEE COMPENSATION COSTS

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Wage, salaries and allowances	235,231	216,524
Retirement benefit scheme contribution	66,393	64,828
Other benefits	43,350	44,254
	<u>344,974</u>	<u>325,606</u>

11. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Inventories recognised as expense	2,227,160	2,147,774
Amortisation on payments for leasehold land held for own use under operating leases	1,577	1,688
Amortisation on intangible assets (included in administrative expenses and cost of sales)	16,769	7,573
Depreciation of property, plant and equipment	238,252	226,847
Depreciation of investment properties	1,649	1,649
Impairment loss on property, plant and equipment	–	51,712
Impairment loss on trade receivables	589	621
Impairment loss on loan receivables	418	2,149
Impairment loss on prepayments and other receivables	219	916
Operating lease rental expenses in respect of buildings	8,505	8,685

12. INCOME TAX EXPENSE

The amount of income tax expense in the unaudited condensed consolidated statement of profit or loss and other comprehensive income represents:

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
PRC enterprise income tax		
– tax for the period	64,670	61,479
– (over)/under-provision in respect of prior periods	(738)	1,638
Hong Kong profits tax		
– tax for the period	–	–
Deferred tax (note 22)	(2,900)	(6,482)
Income tax expense	<u>61,032</u>	<u>56,635</u>

Profits of subsidiaries established in the PRC are subject to PRC enterprise income tax based on the statutory rate of 25% during the nine months ended 30 September 2016 and 2015.

Profits of subsidiaries established in Hong Kong are subject to Hong Kong Profits tax at the statutory rate of 16.5% during the nine months ended 30 September 2016 and 2015.

The income tax expense can be reconciled to the profit before income tax expense per the unaudited condensed consolidated statement of profit or loss and other comprehensive income as follows:

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit before income tax expense	563,236	602,782
Tax calculated at the PRC statutory rate of 25%	140,809	150,696
Effect of non-taxable income	(12,146)	(10,203)
Effect of non-deductible expenses	10,268	2,016
Tax effect of share of results of associates	(86,708)	(55,769)
Utilisation of tax losses previously not recognised	(8,542)	(53,541)
Tax effect of tax losses not recognised	19,217	2,305
Tax effect on changes on fair value of financial assets, impairment loss on assets and timing difference on employee benefits	3	20,817
Effect of tax exemptions granted to a subsidiary (note)	(1,131)	(1,324)
(Over)/under-provision in respect of prior periods	(738)	1,638
Income tax expense	<u>61,032</u>	<u>56,635</u>

Note:

According to the relevant PRC Enterprise Income Tax Law, Xuzhou Dazhong Water Operation Co., Ltd., a subsidiary of the Group, is approved by the Jiangsu Provincial Donghai County National Tax Authority to enjoy a 50% reduction of enterprise income tax for the years from 2014 to 2016.

13. DIVIDENDS

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interim dividend	–	–

2015 dividend paid in the amount of RMB148,038,000 (2014: RMB57,422,000) showed in the unaudited condensed consolidated statement of changes in equity on page IB-6 represented the final dividend of RMB0.06 (2014: RMB0.035) per ordinary share proposed and paid for the year ended 31 December 2015. No interim dividend was proposed or declared for the nine months ended 30 September 2016 and 2015.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Nine months ended 30 September	
	2016	2015
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	<u>443,771</u>	<u>454,528</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>2,467,304,675</u>	<u>2,467,304,675</u>

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the Bonus Issue (as defined and described in note 32). Immediately after the completion of the Bonus Issue, the total number of shares in issue increased to 2,467,304,675 shares.

After the issue of Bonus Shares on 27 May 2015, the calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company for each period was based on the assumption that the Bonus Shares had been in issue throughout the period.

The diluted earnings per share is equal to the basic earnings per share because the Company had no dilutive potential shares outstanding for all periods presented.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Motor vehicles	Gas pipelines and machinery	Equipment, furniture and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2015	193,130	13,813	59,133	5,567,960	48,320	733,808	6,616,164
Additions [#]	368	821	1,610	1,304	772	513,123	517,998
Transfer of construction in progress	4,500	–	6,357	581,533	6,737	(599,127)	–
Disposals	(101)	–	(7,786)	(144,467)	(5,000)	–	(157,354)
At 31 December 2015 and 1 January 2016	197,897	14,634	59,314	6,006,330	50,829	647,804	6,976,808
Additions [#]	–	817	2,174	590	764	452,826	457,171
Acquired through business combination (note 34)	–	30	5	1,417	63	–	1,515
Transfer of construction in progress	318	–	2,809	411,409	1,042	(415,578)	–
Transfer to intangible assets (note 16)	(47,388)	–	–	(14,366)	–	(169,205)	(230,959)
Disposals of subsidiaries (note 7)	–	(1,458)	(203)	–	–	(4,846)	(6,507)
Disposals	–	–	(4,755)	(47,679)	(5,706)	–	(58,140)
At 30 September 2016	150,827	14,023	59,344	6,357,701	46,992	511,001	7,139,888
Accumulated depreciation and impairment							
At 1 January 2015	66,549	8,378	27,525	2,233,426	34,242	–	2,370,120
Charge for the year	6,102	1,351	5,524	295,026	4,258	–	312,261
Impairment	–	–	–	51,712	–	–	51,712
Written back on disposals	(97)	–	(7,319)	(135,523)	(4,715)	–	(147,654)
At 31 December 2015 and 1 January 2016	72,554	9,729	25,730	2,444,641	33,785	–	2,586,439
Charge for the period	3,846	1,044	4,222	226,109	3,031	–	238,252
Transfer to intangible assets (note 16)	(11,795)	–	–	(10,227)	–	–	(22,022)
Disposals of subsidiaries (note 7)	–	(597)	(45)	–	–	–	(642)
Written back on disposals	–	–	(4,115)	(40,287)	(5,346)	–	(49,748)
At 30 September 2016	64,605	10,176	25,792	2,620,236	31,470	–	2,752,279
Net book value							
At 31 December 2015 (Audited)	125,343	4,905	33,584	3,561,689	17,044	647,804	4,390,369
At 30 September 2016 (Unaudited)	86,222	3,847	33,552	3,737,465	15,522	511,001	4,387,609

[#] Including borrowing costs of approximately RMB2,044,000 capitalised during the nine months ended 30 September 2016 (year ended 31 December 2015: RMB3,333,000) (note 9).

Due to the fact that certain gas pipelines of the Group were no longer used during the year ended 31 December 2015, management estimated the recoverable amount of these gas pipelines, based on their fair value less costs to sell, to be negligible as it was impractical to remove these gas pipelines from underground for resale. Accordingly, the Group fully impaired these assets in the segment of piped gas supply with net book value of RMB51,712,000 during the year ended 31 December 2015.

As at 30 September 2016, the Group had certain buildings which did not have proper property certificates for the carrying amount of RMB13,059,000 (31 December 2015: RMB13,541,000). Based on the opinion of the PRC lawyer, the directors do not expect any restriction to continue the use of these properties.

16. INTANGIBLE ASSETS

	Wastewater treatment concession rights	Computer software	Technical knowhow	Total
	RMB'000 (note)	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2015	241,719	4,418	5,646	251,783
Additions	5,679	6,098	–	11,777
At 31 December 2015 and 1 January 2016	247,398	10,516	5,646	263,560
Additions	1,764	73	–	1,837
Transfer from property, plant and equipment (note 15)	208,937	–	–	208,937
Disposal of subsidiaries (note 7)	(51,130)	–	–	(51,130)
Written off	(4,579)	–	–	(4,579)
At 30 September 2016	402,390	10,589	5,646	418,625
Accumulated amortisation and impairment				
At 1 January 2015	59,929	4,240	5,646	69,815
Charge for the year	9,527	676	–	10,203
At 31 December 2015 and 1 January 2016	69,456	4,916	5,646	80,018
Charge for the period	16,191	578	–	16,769
Disposal of subsidiaries (note 7)	(14,670)	–	–	(14,670)
Written-back on written off	(1,193)	–	–	(1,193)
At 30 September 2016	69,784	5,494	5,646	80,924
Net book value				
At 31 December 2015 (Audited)	177,942	5,600	–	183,542
At 30 September 2016 (Unaudited)	332,606	5,095	–	337,701

Before March 2016, certain property, plant and equipment (the "Construction") of the Group used in the wastewater treatment are not required to be transferred to the grantor. In March 2016, the Group obtained concession rights from the local government authority, and agreed that the Construction will be transferred to the grantor at the end of the concession period. As such, a carrying amount of approximately RMB208,937,000 of the Construction fall into the definition of IFRIC 12 "Service Concession Arrangements" and was transferred from property, plant and equipment to intangible assets accordingly.

Note:

The Group's service concession arrangements are concession arrangements for wastewater treatment plants with various local government authorities in the PRC under IFRIC 12 "Service Concession Arrangements". The concession rights arose from six wastewater treatment plants located in different cities in the PRC, namely Jiading, Sanbahe, Jiawang, Peixian, Pizhou and Lianyungang. Except for the wastewater plant in Pizhou which is operated under Transfer-Operate-Transfer (the "TOT") arrangement, the rest are operated under Build-Operate-Transfer (the "BOT") arrangements.

For wastewater treatment plants that are operated under BOT arrangements, the Group (the operator) was granted rights to construct, operate and maintain those wastewater plants for a period of 20 to 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfills the standard quality requirements of the grantor. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authorities. The infrastructure of the wastewater treatment plant, including the plant and equipment, know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantor or any grantor appointed agencies at the end of the concession period at nil or minimal consideration. The operator has the obligation to maintain and restore the wastewater treatment plants to their operational condition upon transferring to the grantor at the end of the concession period. These BOT arrangements do not contain renewal options. The arrangements will be early terminated only when a party breaches the relevant contracts or due to unforeseeable circumstances. All the operating rights of the above BOT arrangements are recognised as "intangible assets" in the unaudited condensed consolidated financial statements.

For wastewater treatment plant in Pizhou, which is operated under TOT arrangement, the operator acquired the plant and was granted rights to operate and maintain the plant for a period of 30 years. The operator has the obligation to treat the required amount of wastewater and also to ensure the treated water fulfills the standard quality requirements of the grantor. The service fees are based on the extent of services rendered and subject to the approval from the relevant local government authority. The infrastructure of the wastewater treatment plant, including the plant and equipment,

know-how, operations manual, hand-over report, design of infrastructure and related documents and any significant residual interest for the wastewater treatment plant, will be transferred to the grantor or any grantor appointed agencies at the end of the concession period at nil consideration. The operator has the obligation to maintain and restore the wastewater treatment plant to its operational condition upon transferring to the grantor at the end of the concession period. The TOT arrangement does not contain renewal options. The arrangement will be early terminated only when a party breaches the contract or due to unforeseeable circumstances. The operating rights of the above TOT arrangement are recognised as “intangible assets” in the unaudited condensed consolidated financial statements.

As disclosed in note 7, two subsidiaries of the Group which were engaged in wastewater treatment business were disposed on 14 July 2016. The relevant wastewater treatment concession rights in Pizhou and Jiawang District which is located in Xuzhou City in aggregate of RMB36,460,000 were derecognised during the nine months ended 30 September 2016.

17. INVESTMENTS IN ASSOCIATES

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Share of net assets	4,459,939	4,041,892
Goodwill	250,371	40,318
	<u>4,710,310</u>	<u>4,082,210</u>

The amount due from an associate represented a loan to Shenzhen Capital Group Co., Ltd. (“**Shenzhen Capital Group**”). The loan amount is unsecured, interest-bearing at 8% per annum and due for repayment in 25 November 2016.

Details of the Group's associates at 30 September 2016 are as follows:

Name of company	Date and place of incorporation/ registration and place of operations	Registered capital <i>(RMB)</i>	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
大眾交通(集團)股份有限公司 ⁽¹⁾ Dazhong Transportation (Group) Co., Ltd. (“ Dazhong Transportation Group ”)	24 December 1988 PRC/PRC	2,364,122,864	19.82	5.77	Public transportation
深圳市創新投資集團有限公司 ⁽¹⁾⁽²⁾ Shenzhen Capital Group	26 August 1999 PRC/PRC	4,202,249,520	13.93	–	Investment holding and provision of financial consultation and assets management services
上海電科智能系統股份有限公司 ⁽¹⁾ Shanghai Dianke Intelligence Systems Inc.	12 December 2007 PRC/PRC	100,000,000	28	–	Provision of products and services for smart transportation solution
上海杭信投資管理有限公司 ⁽¹⁾⁽²⁾ Shanghai Hangxin Investment Management Co., Ltd.	22 April 2004 PRC/PRC	255,600,000	16.13	–	Investment business

APPENDIX IB
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Name of company	Date and place of incorporation/ registration and place of operations	Registered capital (RMB)	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
大眾交通(集團)股份有限公司 ⁽¹⁾ Dazhong Transportation (Group) Co., Ltd. ("Dazhong Transportation Group")	24 December 1988 PRC/PRC	2,364,122,864	19.82	5.77	Public transportation
上海興燁創業投資有限公司 ⁽¹⁾ Shanghai Xingye Venture Capital Co., Ltd. ("Xingye Venture Capital")	4 June 2008 PRC/PRC	40,000,000	20	–	Investment business
上海徐匯昂立小額貸款股份有限公司 ⁽¹⁾ Shanghai Xuhui Only Micro-credit Co., Ltd. ("Xuhui Only Micro-credit")	3 November 2012 PRC/PRC	150,000,000	20	–	Micro-credit services
蘇創燃氣股份有限公司 ⁽²⁾ (Suchuang Gas Corporation Limited) ("Suchuang Gas")	4 July 2013 Cayman Islands/PRC	50,000,000	–	19.76	Sale of gas, provision of gas transmission and gas pipelines construction and installation
邳州源泉水務運營有限公司 ⁽¹⁾⁽⁴⁾ Pizhou Fountainhead Water Operation Co., Ltd.	2 December 2004 PRC/PRC	4,800,000	–	39.2	Wastewater treatment operations
徐州源泉污水處理有限公司 ⁽¹⁾⁽⁴⁾ Xuzhou Fountainhead Sewage Co., Ltd.	19 December 2007 PRC/PRC	5,800,000	–	39.2	Wastewater treatment operations

Notes:

- The English names of the associates registered in the PRC represents the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.
- The Group held, directly or indirectly through its subsidiaries, less than 20% of the voting rights of these entities. Nevertheless, the Directors concluded that the Group has significant influence over these entities and these entities are therefore accounted for as associates using equity method.
- During the nine months ended 30 September 2015, the Group disposed of an aggregate equity interest of 0.94% in Dazhong Transportation Group at an aggregate consideration of RMB267,655,000. The resulted gain on partial disposal of RMB216,386,000 was included in unaudited condensed consolidated financial statements. Furthermore, the Group also acquired additional equity interests of 1.63% (2015: 0.36%) in Dazhong Transportation Group during the nine months ended 30 September 2016.
- These entities were originally subsidiaries of the Group. Subsequent to the disposal on 4 July 2016 as detailed in note 7, they become associates of the Group.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Non-current investments		
– Listed debt investments	17,913	16,910
– Listed equity investments	449,056	505,513
– Unlisted equity investments (note)	409,581	366,537
	876,550	888,960
Less: Allowance for impairment losses	(55,231)	(55,231)
	<u>821,319</u>	<u>833,729</u>
Current investments		
– Investment-linked deposits*	184,017	85,000

* These investment-linked deposits products were provided by the PRC banking institutions with guaranteed rates of return at fixed periods of terms within 3 months generally. The directors assessed that (i) the fair value of embedded derivative of these deposits was insignificant and accordingly such embedded derivative had not been separately recognised; and (ii) the cost of these deposits is approximated to their fair value, given that these deposits were with guaranteed rates of return and short maturities of within 3 months generally.

Note:

The unlisted equity instruments held by the Group are issued by private companies. As the reasonable range of fair value estimation is so significant that the directors are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period. The Group assessed, at the end of each of the reporting periods, whether there was any objective evidence that the unlisted equity investments were impaired. The steps taken by the directors in assessing whether such objective evidence existed mainly include (i) obtaining information about whether there were significant changes with an adverse effect that had taken place in the technological, market, economic or legal environment in which the investees operated, such as structural changes in the industries in which the investees operate, changes in the level of demand for the goods or services sold by the investees resulting from product obsolescence, changes in the political or legal environments affecting the business of the investees; and (ii) whether there was any observable data that came to the attention of the Group about loss events such as changes in the investee's financial condition evidenced by changes in its liquidity, credit rating, profitability, cash flows, debt/equity ratio and level of dividend payment of the investees, that indicates that the cost of the investments might not be recovered. When there was objective evidence that any such individual asset was impaired, the amount of impairment loss was measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

In the opinion of the directors, non-current available-for-sale financial assets are not expected to be realised within one year from the end of respective reporting periods.

During the nine months ended 30 September 2016, the Group held, directly or indirectly through its subsidiaries, 20% or more of the voting rights of certain entities accounted for as available-for-sale financial assets. Nevertheless, the directors concluded that the Group does not have significant influence over these entities and these entities are therefore accounted for as available-for-sale financial assets measured at cost less impairment.

19. TRADE AND BILLS RECEIVABLES

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Trade and bills receivables		
– Trade receivables	312,980	331,652
– Bills receivables	8,659	17,081
	<u>321,639</u>	<u>348,733</u>
Less: Allowance for impairment losses	(19,828)	(19,259)
Current portion	301,811	329,474
Non-current: retention sum for construction contracts	507,376	544,600
	<u>809,187</u>	<u>874,074</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally within 60 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Although the Group's trade receivables relate to a number of customers, there is concentration of credit risk. The trade receivables from the five largest debtors as at 30 September 2016 represented 42.93% (31 December 2015: 29.98%) of total trade receivables, while 19.22% (31 December 2015: 10.62%) of the total receivables were due from the largest debtor.

An aged analysis of the trade and bills receivables of the Group, excluding the retention receivables, as at the end of reporting period, based on the invoice date, is as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Within 1 year	290,112	321,377
1 to 2 years	9,587	5,927
2 to 3 years	3,212	3,407
3 to 4 years	2,354	2,354
4 to 5 years	1,733	1,591
Over 5 years	14,641	14,077
	<u>321,639</u>	<u>348,733</u>
Less: Allowance for impairment losses	(19,828)	(19,259)
	<u>301,811</u>	<u>329,474</u>

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The aged analysis of the trade and bills receivables from third parties of the Group, excluding the retention receivables, that are not individually nor collectively considered to be impaired is as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Neither past due nor impaired*	245,036	297,922
Within 1 year past due	42,262	20,412
1 to 2 years past due	9,108	5,630
2 to 3 years past due	2,890	3,066
3 to 4 years past due	1,648	1,648
4 to 5 years past due	867	796
	<u>301,811</u>	<u>329,474</u>

* The amounts include retention sum for construction contracts which represents retention receivables due from customers upon completion of the free maintenance period of the construction work, which normally last from 5 to 15 years. As at 30 September 2016 and 31 December 2015, retention receivables are neither past due nor impaired.

Receivables from third parties that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The below table reconciles the impairment loss of trade receivables:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
At beginning of the year/period	19,259	17,908
Impairment loss recognised	589	1,351
Written-off of impairment loss previously recognised	(20)	–
At end of the year/period	<u>19,828</u>	<u>19,259</u>

20. LEASE RECEIVABLES

As 30 September 2016, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery, solar equipment and hotel equipment financial leasing arrangements, is as follows:

	Motor vehicles	Machinery	Solar equipment	Hotel equipment	Total
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Lease receivables	76,482	243,122	673,545	82,139	1,075,288
Less: Unearned finance income	(7,768)	(38,671)	(44,531)	(8,292)	(99,262)
At 30 September	<u>68,714</u>	<u>204,451</u>	<u>629,014</u>	<u>73,847</u>	<u>976,026</u>

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An aged analysis of lease receivables as at 30 September 2016, determined based on the age of the receivables since the effective dates of the relevant lease contracts, is as follows:

	Lease receivables	Unearned finance income	Net lease receivables
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Within 1 year	594,767	(60,362)	534,405
1 to 2 years	307,324	(26,966)	280,358
2 to 3 years	128,541	(8,389)	120,152
3 to 4 years	26,444	(2,790)	23,654
4 to 5 years	18,213	(756)	17,457
	<u>1,075,289</u>	<u>(99,263)</u>	<u>976,026</u>
Less: Non-current portion	(480,522)	38,901	(441,621)
Current portion	<u>594,767</u>	<u>(60,362)</u>	<u>534,405</u>

As 31 December 2015, the breakdown of lease receivables in connection with the provision of financial leasing to its customers by a wide array of assets under finance lease arrangements, such as motor vehicles, machinery and solar equipment financial leasing arrangements, is as follows:

	Motor vehicles	Machinery	Solar equipment	Total
	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Lease receivables	50,152	7,434	790,658	848,244
Less: Unearned finance income	(6,436)	(1,409)	(87,470)	(95,315)
At 31 December	<u>43,716</u>	<u>6,025</u>	<u>703,188</u>	<u>752,929</u>

An aged analysis of lease receivables as at 31 December 2015, determined based on the age of the receivables since the effective dates of the relevant lease contracts is as follows:

	Lease receivables	Unearned finance income	Net lease receivables
	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Within 1 year	474,028	(61,243)	412,785
1 to 2 years	217,808	(25,471)	192,337
2 to 3 years	145,414	(7,735)	137,679
3 to 4 years	6,257	(678)	5,579
4 to 5 years	4,737	(188)	4,549
	<u>848,244</u>	<u>(95,315)</u>	<u>752,929</u>
Less: Non-current portion	(374,216)	34,072	(340,144)
Current portion	<u>474,028</u>	<u>(61,243)</u>	<u>412,785</u>

Lease receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the end of reporting periods is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB1,238,460,000 (31 December 2015: RMB856,460,000) as at 30 September 2016.

21. AMOUNT DUE FROM GRANTOR

A profile of the amount due from grantor as at the end of the reporting periods, based on the due date, is as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Due within 1 year	34,408	33,090
Non-current portion	627,082	653,216
	<u>661,490</u>	<u>686,306</u>

The credit quality of amount due from grantor that is neither past due nor impaired has been assessed by reference to historical information about counterparty default rate. The existing counterparty did not default in the past.

The Group recognised financial asset — amount due from grantor in respect of its public infrastructure projects arising from a BOT arrangement. The significant aspects of the service concession arrangement are summarised as follows:

- (a) The Group entered into a service concession arrangement with the local government authority (i.e. the grantor) for the Xianyin Road Tunnel construction and operation of which is located in Shanghai, the PRC for a concession period of 25 years. Pursuant to the service concession arrangement, the Group has to design, construct and operate the Xianyin Road Tunnel, and has the obligation to maintain the Xianyin Road Tunnel in good condition. The Group will be paid for its services over the service concession period at prices stipulated through a pricing mechanism. Upon expiry of the concession period, the Xianyin Road Tunnel and the related facilities will be transferred to the grantor at nil consideration.

The service concession arrangement does not contain any renewal options. The standard rights of the grantor to terminate include failure of the Group to construct and operate the Xianyin Road Tunnel and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the arrangement include failure to receive payments for road and tunnel service from the grantor and in the event of a material breach of the terms of the agreement.

- (b) The public infrastructure projects with financial receivables amounting to RMB661,490,000 (31 December 2015: RMB686,306,000) as at 30 September 2016 are pledged to secure the loans taken up by the Group (note 26).

Amount due from grantor is in respect of revenue from construction services under BOT arrangement and bears interest at a rate of 5.4% per annum. The amount was not yet due for payment at the end of each of the reporting periods and will be settled by revenue to be generated during the operating periods of the BOT arrangement.

22. DEFERRED TAX ASSETS/(LIABILITIES)

The components and movements in deferred tax liabilities and assets during the nine months ended 30 September 2016 are as follows:

	Impairment of assets	Provision	Fair value changes of available- for-sale financial assets	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2015 (Audited)	307	3,589	(86,502)	(14,613)	(97,219)
Credited/(charged) to profit or loss	92	582	(1)	8,496	9,169
Charged to other comprehensive income	–	–	(12,631)	39	(12,592)
At 31 December 2015 and 1 January 2016 (Audited)	399	4,171	(99,134)	(6,078)	(100,642)
Credited/(charged) to profit or loss	645	(712)	–	2,967	2,900
Charged to other comprehensive income	–	–	24,466	–	24,466
Others	–	–	–	(1,016)	(1,016)
At 30 September 2016 (Unaudited)	<u>1,044</u>	<u>3,459</u>	<u>(74,668)</u>	<u>(4,127)</u>	<u>(74,292)</u>

For the purpose of presentation in the unaudited condensed consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 30 September 2016	As at 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Deferred tax assets	21,903	19,618
Deferred tax liabilities	(96,195)	(120,260)
	<u>(74,292)</u>	<u>(100,642)</u>

Deferred tax assets have not been recognised for the following:

	As at 30 September 2016	As at 31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Deductible temporary differences	218,460	244,686
Unused tax losses	188,154	144,467
	<u>406,614</u>	<u>389,153</u>

No deferred tax asset is recognised in relation to such tax losses and other deductible temporary differences due to the unpredictability of future profit streams.

Tax losses unrecognised as deferred tax assets that will expire in:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
2016	4,078	4,078
2017	7,107	7,332
2018	78,911	90,774
2019	12,914	34,129
2020	8,276	8,154
2021	76,868	–
	<u>188,154</u>	<u>144,467</u>

23. LOAN RECEIVABLES

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Loan receivables	222,000	208,200
Less: Allowance for impairment losses	(7,807)	(7,389)
Current portion	<u>214,193</u>	<u>200,811</u>

The Group's loan receivables, which arise from the micro-credit business of providing loans in the PRC, are denominated in RMB.

Loan receivables are secured by collaterals provided by customers, bear interest and are repayable with fixed terms agreed with the Group's customers. The maximum exposure to credit risk at each of the end of reporting periods is the carrying value of the receivables mentioned above. The fair value of financial or non-financial assets accepted as collaterals that the Group is permitted to sell or re-pledge in the absence of default is RMB521,523,000 (31 December 2015: RMB316,333,000) as at 30 September 2016.

An aging analysis of loan receivables (that are not considered to be impaired) as at the end of the reporting period, based on the payment due date, is as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Neither past due nor impaired	156,567	155,925
Less than 1 year past due	12,740	44,886
Over 1 year past due	44,886	–
	<u>214,193</u>	<u>200,811</u>

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A maturity profile of the loan receivables as at the end of the reporting periods, based on the maturity date, is as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
Within 1 year	222,000	208,200
1 to 2 years	–	–
	<u>222,000</u>	<u>208,200</u>

The credit quality of loan receivables that are neither past due nor impaired has been assessed by reference to historical information about counterparty default rates. The existing counterparties do not have defaults in the past.

The below table reconciles the impairment loss of loan receivables:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
At beginning of the period/year	7,389	2,572
Impairment loss recognised	418	4,817
At end of the period/year	<u>7,807</u>	<u>7,389</u>

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
Listed equity investments	69,258	104,871
Listed debt investments	1,472	1,462
	<u>70,730</u>	<u>106,333</u>

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
Cash and bank balances	2,441,876	1,553,052
Less: Pledged short-term deposits	(158,000)	(3,397)
Cash and cash equivalents	<u>2,283,876</u>	<u>1,549,655</u>

Cash and banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

As at 30 September 2016, deposits were pledged to secure a bank loan. As at 31 December 2015, pledged deposits represent deposits pledged to banks to secure bank bills facilities granted to the Group.

RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. BORROWINGS

	As at 30 September 2016	As at 31 December 2015
	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
Current portion		
Secured bank loans	450,907	135,710
Unsecured bank loans	1,791,824	1,361,999
	<u>2,242,731</u>	<u>1,497,709</u>
Non-current portion		
Secured bank loans	157,000	185,000
Unsecured bank loans	259,334	253,710
	<u>416,334</u>	<u>438,710</u>
Total borrowings	<u>2,659,065</u>	<u>1,936,419</u>
Bank loan interest at rate per annum in the range of	0.93% to 4.90%	0.90% to 5.84%

Total current and non-current bank borrowings were scheduled to repay as follows:

	As at 30 September 2016	As at 31 December 2015
	<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
On demand or within one year	2,242,731	1,497,709
More than one year, but not exceeding two years	347,531	216,981
More than two years, but not exceeding five years	68,803	221,729
	<u>2,659,065</u>	<u>1,936,419</u>

The carrying amounts of the Group's current interest-bearing bank loans approximate to their fair values.

The Group's interest-bearing bank loans are secured by the pledges of the following assets with carrying values at the end of the reporting periods as follows:

		As at 30 September	As at 31 December
	<i>Notes</i>	2016	2015
		<i>RMB'000 (Unaudited)</i>	<i>RMB'000 (Audited)</i>
Pledge of assets:			
Available-for-sale financial assets	(i)	17,913	16,910
Financial assets at fair value through profit or loss	(i)	70,694	106,291
Trade receivables	(ii)	–	496,970
Amount due from grantor	(iii)	661,490	686,306
Investments in associates	(iv)	275,835	–
Pledged deposits	(iv)	158,000	–
		<u> </u>	<u> </u>

Notes:

- (i) Bank loans amounting to RMB21,950,000 (31 December 2015: RMB31,710,000) as at 30 September 2016 were secured by available-for-sale financial assets and financial assets at fair value through profit or loss in note 18 and note 24 respectively.
- (ii) No bank loans (31 December 2015: RMB50,000,000) as at 30 September 2016 were secured by the retention sum for construction contracts included in trade receivables in note 19.
- (iii) Bank loans amounting to RMB212,000,000 (31 December 2015: RMB239,000,000) as at 30 September 2016 were secured by the amount due from grantor in note 21.
- (iv) A bank loan amounting to USD56,000,000 as at 30 September 2016 was secured by 72 million shares of Dazhong Transportation Group in note 17 and pledged deposits in note 25.

At 30 September 2016, the Company has issued guarantees to banks to secured banking facilities granted to certain subsidiaries to the extent of RMB2,500,000,000 (31 December 2015: RMB2,500,000,000). The aforesaid bank loans outstanding as at 30 September 2016 were RMB1,124,400,000 (31 December 2015: RMB681,754,000).

Most of the Group's bank borrowings agreements provide that without the lending banks' prior written consent, the Group cannot conduct reorganisations, mergers, consolidations, changes of major equity holders, changes of business model, transfer or sale of major assets, investments, guarantees, substantial increases of debt or other actions that may affect the Group's ability to repay the loans.

Included in unsecured loans were loan from a fellow subsidiary of Shanghai Gas Group, one of the shareholders of the Company, amounting to RMB300,000,000 (31 December 2015: RMB300,000,000) as at 30 September 2016. The balance was unsecured, interest bearing at interest rates of 3.92% (31 December 2015: 3.92%–5.04%) per annum and repayable within one year (31 December 2015: one year).

The Group has aggregated banking facilities of RMB6,918,976,000 (31 December 2015: RMB6,177,460,000) acquired from the bankers, of which RMB2,659,065,000 (31 December 2015: RMB1,936,419,000) was utilised and RMB4,259,911,000 (31 December 2015: RMB4,241,041,000) was unutilised as at 30 September 2016.

27. CORPORATE BONDS AND SHORT-TERM BONDS PAYABLE

Corporate bonds

As approved by the China Securities Regulatory Commission document [2011] No. 2079, the Company issued domestic corporate bonds with an aggregate principal amount of RMB1.6 billion on 6 January 2012. The bonds mature in six years and bear interest at a benchmark interest rate (based on the National Interbank Funding Center released interest rate) plus an interest margin of 2.95% per annum.

The corporate bonds are stated at amortised cost. Interest is payable once every six months.

The corporate bonds recognised in the unaudited condensed consolidated statement of financial position are calculated as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
At beginning of the period/year	1,590,465	1,586,208
Add: Interest expense	67,583	110,135
Less: Interest paid	(64,191)	(105,878)
At end of the period/year	<u>1,593,857</u>	<u>1,590,465</u>

Short-term bonds

As approved by the National Association of Financial Market Institutional Investors [2016] No. SCP251, the Company issued short-term bonds with an aggregate principal amount of RMB300 million on 23 September 2016. The bonds mature in 270 days and bear interest at a benchmark interest rate (based on the National Interbank Funding Center released interest rate) plus an interest margin of 2.90% per annum.

The short-term bonds are stated at amortised cost. Interest is payable at due day.

The short-term bonds recognised in the unaudited condensed consolidated statement of financial position are calculated as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
At beginning of the period/year	–	–
Issued during the period	300,000	–
Add: Interest expense	169	–
At end of the period/year	<u>300,169</u>	<u>–</u>

28. TRADE AND BILLS PAYABLES

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Trade payables		
– Shanghai Gas Group	1,118,079	814,254
– Third parties	445,784	297,201
	<u>1,563,863</u>	<u>1,111,455</u>

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Within 1 year	1,552,138	1,101,783
1 to 2 years	4,657	971
2 to 3 years	1,659	2,022
Over 3 years	5,409	6,679
	<u>1,563,863</u>	<u>1,111,455</u>

29. OTHER PAYABLES

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Current portion		
Deposits received, other payables and accruals	463,220	539,063
Amount due to Shanghai Gas Group	19,631	20,791
Receipt in advance	182,718	114,644
Salary payables	52,605	57,006
Interest payables	22,577	1,979
Dividend payables	911	911
Deferred government grants	272	272
	<u>741,934</u>	<u>734,666</u>
Non-current portion		
Amount due to Shanghai Gas Group	37,310	37,310
Finance lease deposits received	95,985	56,785
Deferred government grants	62,172	11,900
	<u>195,467</u>	<u>105,995</u>
	<u>937,401</u>	<u>840,661</u>

Other payables are non-interest-bearing.

30. DEFERRED INCOME

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
At beginning of the period/year	1,281,482	1,194,979
Additions	210,221	293,846
Released to profit or loss	(163,203)	(207,343)
At end of the period/year	<u>1,328,500</u>	<u>1,281,482</u>
Analysed into:		
Current	209,950	203,076
Non-current	1,118,550	1,078,406
At end of the period/year	<u>1,328,500</u>	<u>1,281,482</u>

Deferred income represents the fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network. These fees are received upfront and revenue is recognised over ten years.

As at 30 September 2016 and 31 December 2015, the deferred income included an amount of RMB139,434,000 which was related to the balance of fees received from customers in advance in exchange for the connection of gas pipelines to the natural gas pipeline network at the time when the 50% equity interests of Shanghai Dazhong Gas Co., Ltd. (“**Shanghai Dazhong Gas**”) was transferred from Shanghai Municipal Assets Management Company to the Company pursuant to a share transfer agreement in 2001. This balance remained unsettled as there was a dispute as to the ownership of such balance and the related interest income of RMB8,944,000 which was accounted for as “other payables”.

31. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits less recognised losses	280,393	256,272
Progress billings	(817,136)	(692,885)
	<u>(536,743)</u>	<u>(436,613)</u>
Represented by:		
Due to customers included in current liabilities	<u>(536,743)</u>	<u>(436,613)</u>

32. SHARE CAPITAL

	Number of ordinary shares	Authorised shares	Issued and paid shares
		<i>RMB'000</i>	<i>RMB'000</i>
As 1 January 2015	1,644,869,783	1,644,870	1,644,870
Issue of bonus shares of every 10 shares for 5 bonus shares	822,434,892	822,435	822,435
At 31 December 2015, 1 January 2016 and 30 September 2016	<u>2,467,304,675</u>	<u>2,467,305</u>	<u>2,467,305</u>

Pursuant to the special resolution passed at the annual general meeting of the Company on 12 May 2015, issue of bonus shares to all the shareholders of the Company on the basis of five new shares (the “**Bonus Shares**”) for every then existing ten shares of the Company held by the member on the register of members of the Company was approved on 26 May 2015. The Bonus Shares rank pari passu in all respects with the existing shares of the Company. Accordingly, a total number of 822,434,892 Bonus Shares were issued on 27 May 2015.

33. COMMITMENTS

(a) Operating lease commitments

Operating leases – lessee

Except for the prepaid premium for land leases, the Group leases certain of its land and buildings and office premises under operating lease arrangements. Leases for land and buildings and office premises are for terms ranging from 1 to 15 years.

The total future minimum lease payments under non-cancellable operating leases, which the Group is a lessee are as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Within one year	1,634	4,801
In the second to fifth year	2,962	2,909
After the fifth year	6,093	6,664
	<u>10,689</u>	<u>14,374</u>

Operating leases – lessor

As the end of each reporting date, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of the investment properties and equipments are as follows:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Within one year	6,159	5,500
In the second to fifth year	15,916	12,750
After the fifth year	22,125	25,244
	<u>44,200</u>	<u>43,494</u>

(b) Capital commitments

Capital commitments not provided for in the unaudited condensed consolidated financial statements were as follows:

	Notes	As at	As at
		30 September	31 December
		2016	2015
		RMB'000	RMB'000
		(Unaudited)	(Audited)
In respect of:			
Share transfer agreement	(i)	51,678	99,795
Capital injection in a subsidiary	(ii)	–	221,366
Capital injection in a subsidiary	(iii)	10,000	–

Notes:

- (i) A subsidiary of the Group, namely 上海大眾集團資本股權投資有限公司 (“the Buyer”), engaged in a share transfer agreement with 上海東方傳媒集團有限公司 (“the Seller”) on 29 April 2010 to acquire the partial of the shares held by the Seller of 華人文化產業股權投資(上海)中心有限合夥 at the consideration price of RMB250,000,000. According to the condition of the mutual agreement, the full amount should be paid upon the completion of the registration of the transfer of shares. As at 31 December 2015 and 30 September 2016, the Group in aggregate has paid RMB198,322,000 by nine installments and all shareholders have paid according to the equity interest proportion. The remaining balance of RMB51,678,000 will be paid together with other shareholders in accordance with equity interest proportion for further investment needs.
- (ii) On 8 August 2014, the Company set up a new company in Shanghai namely Shanghai Dazhong Asset Management Co., Ltd. (上海大眾資產管理有限公司) with registered capital of RMB500,000,000. As at 31 December 2015, the Company has paid, in aggregate, RMB278,634,000 and the remaining amount was fully paid during the nine months ended 30 September 2016.
- (iii) On 12 July 2016, the Company set up a new company in Shanghai namely Shanghai Zhongong Information Service Co., Ltd. (上海眾貢信息服務有限公司) with registered capital of RMB10,000,000. As at 30 September 2016, there is no paid-in capital. The remaining amount is committed to pay after year the period ended.

34. BUSINESS ACQUISITION

On 29 June 2016, the Group acquired 100% of the equity interests of Shanghai Dazhong Transportation Commerce Co., Ltd., a company whose principal activity is provision of payment services. The acquisition was made with the aims to expand the Group's business.

The fair value of identifiable assets and liabilities of the acquiree as at the date of acquisition were:

	RMB'000	RMB'000
Property, plant and equipment	1,515	
Long-term prepayments	397	
Trade receivables	369	
Prepayments and other receivables	14,215	
Cash and cash equivalents	140,292	
Other current assets	372	
Other current liabilities	(60,358)	
		96,802
Cash consideration paid		(98,114)
Goodwill		1,312
Cash flow:		
Cash payment	98,114	
Cash and cash equivalents acquired	(140,292)	
Net cash inflow arising from acquisition	(42,178)	

The fair value of trade receivables amounted to approximately RMB369,000. In the opinion of the directors, no receivable is expected to be uncollectible.

The goodwill of RMB1,312,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Since the acquisition date, Shanghai Dazhong Transportation Commerce has not yet recorded any revenue and profit before income tax expense. If the acquisition had occurred on 1 January 2016, Group's revenue and profit before income tax expense for the nine months ended 30 September 2016 would have been RMB3,458,831,000 and RMB561,105,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future performance.

The acquisition-related costs were not material, and have been expensed and are included in administrative expenses.

35. RELATED PARTY TRANSACTIONS

During the nine months ended 30 September 2016, the Group entered into the following significant transactions with its related parties as follows:

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
<i>Shanghai Gas Group</i>		
Purchase of piped gas	1,906,040	1,814,752
Rental expenses	4,500	4,245
Gas hotline service expenses	–	2,850
 <i>Associates</i>		
Interest income	3,620	3,620
Rental expenses	2,577	3,402
 <i>Shanghai Gas Group's affiliate</i>		
Interest expense	8,374	11,757

The above transactions were conducted in the normal course of the Group's business and were determined based on mutually agreed prices and terms with reference to the market price at the time of the transaction.

Key management remuneration

The Group considered the directors, supervisors and others as key management.

	Nine months ended 30 September	
	2016	2015
	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Basic salaries and other benefits	15,784	10,489
Pension scheme contributions	918	651
Total compensation paid to key management personnel	<u>16,702</u>	<u>11,140</u>

As the end of each reporting date, apart from the disclosures already made in investments in associates, trade and bills payable and other payables in notes 17, 28 and 29 respectively, the balances with its related parties are listed as follows:

		As at	As at
		30 September	31 December
		2016	2015
		<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
<i>Other receivables</i>			
Shanghai Xuhui Onlly Micro-credit	(i)	102	–
Shanghai Gas Group	(ii)	2,798	2,798
Shenzhen Capital Group	(iii)	4,089	469
<i>Other payables</i>			
Dazhong Building	(iv)	<u>–</u>	<u>307</u>

- (i) Xuhui Onlly Micro-credit is an associate of the Group.
- (ii) Shanghai Gas Group is another major shareholder of the Company and also a shareholder of Shanghai Dazhong Gas.
- (iii) Shenzhen Capital Group is an associate of the Group.
- (iv) Shanghai Dazhong Building Co., Ltd. (“**Dazhong Building**”) is a subsidiary of an associate of the Group, namely Dazhong Transportation Group.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Financial assets</i>		
Financial assets at fair value through profit or loss		
– held for trading		
– Listed investments	70,730	106,333
Loans and receivables		
– Due from an associate	60,335	60,335
– Trade and bills receivables	809,187	874,074
– Lease receivables	976,026	752,929
– Amount due from grantor	661,490	686,306
– Loan receivables	214,193	200,811
– Other receivables	93,649	169,562
– Pledged deposits	158,000	3,397
– Cash and cash equivalents	2,283,876	1,549,655
Available-for-sale financial assets		
– Listed investments	466,969	522,423
– Unlisted investments	354,350	311,306
– Investment-linked deposits	184,017	85,000
<i>Financial liabilities</i>		
Financial liabilities measured at amortised cost		
– Borrowings	2,659,065	1,936,419
– Trade and bills payables	1,563,863	1,111,455
– Other payables	692,239	713,845
– Corporate bonds and short-term bonds payable	1,894,026	1,590,465

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables, other payables and corporate bonds and short-term bonds payable.

In the opinion of the directors, the carrying value of amount due from an associate, trade and bills receivables, amount due from grantor, loan receivables, other receivables, pledged deposits, cash and cash equivalents, borrowings, trade and bills payables, other payables and corporate bonds and short-term bonds payable are approximated to fair value.

(b) Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

(c) Fair value and fair value hierarchy of financial instruments of the Group

	Fair value measurement using Quoted prices in active markets (Level 1)	
	As at 30 September	As at 31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale listed investments	466,969	522,423
Equity and debt investments at fair value through profit or loss	70,730	106,333

37. LITIGATION

In 2009, Shanghai Dazhong Gas, one of the Company's subsidiaries, announced its intention to sell its 49% equity interests in Nanchang Gas Co., Ltd. ("**Nanchang Gas**"). On 8 December 2009, a sales and purchase agreement was signed with China Resources Gas (Group) Co., Ltd. ("**China Resources Gas**") (華潤燃氣(集團)有限公司) to sell the 49% equity interests in Nanchang Gas to China Resources Gas for a consideration of RMB698,000,000. The changes in registration was completed on 24 March 2011 and on 29 June 2011, Shanghai Dazhong Gas has received HKD792,980,000 consideration price from China Resources Gas.

Upon completion of the transfer, Shanghai Dazhong Gas requested China Resources Gas Limited to compensate its loss in exchange difference and on share of profit from Shanghai Dazhong Gas due to the delay in actual payment in Hong Kong dollar and delay on the completion of changes in registration. On 28 April 2013, the Shanghai Arbitration Commission concluded that China Resources Gas needed to pay HKD77,745,100 (equivalent to RMB61,372,000) to Shanghai Dazhong Gas as compensation. This compensation income was included in other revenue of Shanghai Dazhong Gas for the year ended 31 December 2013.

On 5 November 2013, China Resources Gas applied to the Shanghai Court for a compensation claim due to the delay of transfer of shares and the operation license. On 1 July 2015, both parties agreed to resolve the issue by settlement and signed a settlement agreement. Shanghai Dazhong Gas agreed to pay RMB80,000,000 to China Resources Gas to settle the dispute. The amount was settled on 1 July 2015. This compensation loss was included in administrative expenses of Shanghai Dazhong Gas for the nine months ended 30 September 2015.

The information set forth in this appendix does not form part of the Accountant's Report as set forth in Appendix IA and the Unaudited Interim Financial Information as set forth in Appendix IB to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus, the "Accountant's Report" set forth in Appendix IA and "Unaudited Interim Financial Information" set forth in Appendix IB to this prospectus.

The unaudited pro forma financial information prepared in accordance with paragraph 29 of chapter 4 of the Listing Rules is set forth below to provide the prospective investors with further information on how the Global Offering might have affected the consolidated net tangible assets of the Group attributable to the owners of the Company after the completion of the Global Offering.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as if the Global Offering had taken place on 30 September 2016. This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated financial position of the Group attributable to the owners of the Company had the Global Offering been completed on 30 September 2016 or at any future dates.

	Unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets as at 30 September 2016	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 5)
Based on the Offer Price of HK\$4.25 per Share	5,448,355	1,494,712	6,943,067	2.39	2.75
Based on the Offer Price of HK\$3.35 per Share	5,448,355	1,166,639	6,714,994	2.28	2.62

Notes:

- (1) The unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2016 is compiled based on the Unaudited Interim Financial Information set out in Appendix IB to the Prospectus, which is based on the unaudited consolidated net assets of the Group attributable to owners of the Company of RMB5,787,368,000 as at 30 September 2016 with an adjustment for intangible assets and goodwill attributable to the owners of the Company of RMB339,013,000 as at 30 September 2016.
- (2) The estimated net proceeds from the Global Offering are based on 478,940,000 Offer Shares and the indicative Offer Price of HK\$4.25 or HK\$3.35 per Offer Share, being the high-end and low-end, respectively, of the stated Offer Price range per Offer Share, after deduction of underwriting fees and commissions and other listing related expenses paid or payable by the Company, net of the net proceeds from the sale of 43,540,000 Sale Shares, and without taking into account of any Offer Shares which may be allotted and issued upon the exercise of Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is calculated based on 2,902,704,675 Shares in issue assuming (i) the Global Offering had been completed on 30 September 2016 and (ii) no exercise of the Over-allotment Option.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2016.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of HK\$1.00 to RMB0.8707. No representation is made that the amounts in RMB have been, could have been or could be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

**(B) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the independent reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group.



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**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF SHANGHAI DAZHONG PUBLIC UTILITIES (GROUP) CO., LTD.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 30 September 2016 and related notes as set out in Appendix II on pages II-1 to II-2 of the prospectus dated 23 November 2016 (the "**Prospectus**") issued by the Company (the "**Unaudited Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix II on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed global offering of the Company (the "**Global Offering**") on the Group's financial position as at 30 September 2016 as if the Global Offering had taken place at 30 September 2016. As part of this process, information about the Group's unaudited condensed consolidated financial position has been extracted by the Directors from the Group's historical financial information as at 30 September 2016, on which a review report has been published and included in Appendix IB to the Prospectus.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

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

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information, in accordance with paragraph 29(7) of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or the transaction as at 30 September 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provides a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

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

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

BDO Limited

Certified Public Accountants

Alfred Lee

Practising Certificate Number P04960

Hong Kong, 23 November 2016

TAXATION

The following is a summary of certain PRC and Hong Kong tax consequences to investors relating to their purchases of the H Shares under the Global Offering and their holding the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of the H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions. This summary is based on the tax laws of the PRC and Hong Kong in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section of the prospectus does not address any aspect of Hong Kong or PRC taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of investing and disposing of the H Shares.

PRC TAXATION

The following is a discussion of certain PRC tax provisions relating to the ownership and disposal of H Shares purchased in connection with the Global Offering and held by the investors as capital assets (the “**Discussion**”). This summary does not purport to address all material tax consequences of the ownership of H Shares and does not take into account the specific circumstances of any particular investors. This summary is based on the PRC tax laws in effect as of the Latest Practicable Date, as well as on the Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006 and the Second Protocol to Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排第二議定書》) taken effect on June 11, 2008 and the Third Protocol to Arrangement between Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排第三議定書》) taken effect on December 20, 2010 (collectively, the “**Arrangements**”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This Discussion does not address any aspects of PRC taxation other than tax on dividends, capital tax, stamp duty, estate duty, income tax, value-added tax and business tax. Prospective investors are urged to consult their tax advisers regarding PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

TAXATION OF JOINT STOCK LIMITED COMPANIES**(i) Enterprise Income Tax**

On March 16, 2007, *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) (“**Enterprise Income Tax Law**”) was approved and promulgated on the Fifth session of the Tenth National People’s Congress. The Enterprise Income Tax Law has taken effect since January 1, 2008 and regulates the rate of enterprise income tax for domestic enterprise at 25%. According to the Notice about Implementation of Preferential Policies on Transition of Enterprise Income Tax (*Guo Fa* [2007] No. 39) promulgated by the State Council on December 26, 2007, the enterprises established before the promulgation of the Enterprise Income Tax Law are entitled to benefit from a preferential tax rate as per the tax laws and administrative regulations then prevailing may gradually shift to the tax rate defined by the Enterprise Income Tax Law within five years after effectiveness of the Enterprise Income Tax Law. Those entitled to the preference of fixed tax holiday or fixed-term tax reductions may continue to benefit in the same manner according to the requirements of the State Council until expiration of the tax holiday or the term of the preference. For those who have not benefited from such preference due to the failure to realize profit, the preference has been applied since the effective date of the Income Tax Law, January 1, 2008.

(ii) Business Tax

According to the *Provisional Regulations of The People’s Republic of China on Business Tax* (中華人民共和國營業稅暫行條例), which became effective on January 1, 1994 and was latest amended on November 10, 2008, and the *Detailed Rules for Implementation of the Provisional Regulations of The People’s Republic of China on Business Tax* (中華人民共和國營業稅暫行條例實施細則), which became effective on January 1, 1994 and was latest amended on October 28, 2011, the business tax with rate from 3% to 20% will be levied on the institutions and individuals which provide taxable services, transfer of intangible property or sale of real estate in the PRC.

(iii) Value-added Tax

According to the *Provisional Regulations of The People’s Republic of China on Value-added Tax* (中華人民共和國增值稅暫行條例) in effect since January 1, 2009 and the *Detailed Rules for Implementation of the Provisional Regulations of The People’s Republic of China on Value-added Tax* (中華人民共和國增值稅暫行條例實施細則) in effect since January 1, 2009 and amended on October 28, 2011, institutions and individuals selling goods or providing processing, repairing or replacement services or importing goods within the PRC shall pay VAT. The tax rate of 13% shall be levied on general taxpayers selling or importing grain, edible vegetable oil, tap water, heating supply, air-conditioning, hot water, gas, liquefied petroleum gas, natural gas, marsh gas, coal products for civil use, books, newspapers, magazines, feedstuff, chemical fertilizer, pesticide, farming machines, movies for agricultural use and other goods specified by the State Council. The rate applicable to goods exported by taxpayers shall be zero unless otherwise prescribed by the State Council. The rate of 17% shall be levied on

taxpayers selling or importing goods other than the above-mentioned items, and on taxpayers providing processing, repair or replacement services.

The PRC government is in the process of implementing value-added tax reform, pursuant to which certain industries will gradually transit from the business tax regime to the value-added tax regime. According to the Notice of the Ministry of Finance and the State Administration of Taxation on the Tax Policies for Implementing across the Country the Pilot Program on Levying Value-Added Tax in Lieu of Business Tax on the Transportation Industry and Some Modern Service Industries (Revised in 2013) (*Cai Shui* [2013] No. 106) (財政部、國家稅務總局關於在全國開展交通運輸業和部分現代服務業營業稅改徵增值稅試點稅收政策的通知(2013修改)(財稅[2013]106號)), the rate of value-added tax ranges from 6% to 17% based on taxable items.

(iv) Stamp Duty

According to the Provisional Regulations of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例) effective from October 1, 1988 and recently amended on January 8, 2011 and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例實行細則) effective from October 1, 1988, all institutions and individuals that execute or receive taxable evidential documents within the PRC shall be subject to stamp duty. Such taxable evidential documents shall include purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other evidential documents that resemble contracts in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by the Ministry of Finance.

TAXES APPLICABLE TO SHAREHOLDERS OF COMPANIES

(i) Dividend-related Tax

Individual investors

Pursuant to the Law of the People's Republic of China on Individual Income Tax (中華人民共和國個人所得稅法) (the "**New Individual Income Tax Law**") which was amended on June 30, 2011 and became effective from September 1, 2011, dividends paid by PRC companies are subject to a PRC withholding tax levied at a rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a PRC company is subject to a withholding tax of 20% unless reduced by an applicable tax treaty or specially exempted by the tax authority of the State Council.

On January 4, 2011, the SAT issued the Notice of the PRC State Administration of Taxation Concerning the Collection and Management of Individual Income Tax after the Abolition of *Guo Shui Fa* [1993] 045)(國家稅務總局關於國稅發[1993]045號文件廢止後有關

個人所得稅徵管問題的通知)(the “**New Tax Notice**”). Pursuant to the New Tax Notice, dividends received by overseas resident individual shareholders from domestic non-foreign invested enterprises which have issued shares in Hong Kong are subject to individual income tax, which shall be withheld and paid by such domestic non-foreign invested enterprises acting as a withholding agent according to the relevant laws. Overseas resident individual shareholders of domestic non-foreign invested enterprises which have issued shares in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements between the countries in which they are residents and China, or the tax arrangements between Mainland China and Hong Kong (Macau). According to the Notice of the SAT in relation to the Administrative Measures on Preferential Treatment entitled by Non-residents under Tax Treaties (Tentative) (*Guo Shui Fa* [2009] No. 124) (國家稅務總局關於印發《非居民享受稅收協定待遇管理辦法(試行)》的通知(國稅發[2009]124號)), overseas resident individuals shall apply for the relevant preferential tax treatment and complete the relevant formalities in person or through an agent appointed in writing. Since dividends are generally subject to income tax at a tax rate of 10% as required by relevant tax regulations and arrangements, and there is a large number of shareholders and in order to simplify the collection of tax, individual shareholders are generally subject to a withholding tax rate of 10% without any application when domestic non-foreign invested enterprises which have issued shares in Hong Kong distribute dividends. Where the tax rates on dividends are not 10%, the following requirements will apply:

- For individuals receiving dividends who are citizens from countries that have entered into tax treaties with the PRC with tax rates lower than 10%, the withholding agent will apply on behalf of them to seek entitlement of preferential tax treatments pursuant to *Guo Shui Fa* [2009] No. 124, and upon approval by the competent tax authorities, the excess amounts withheld will be refunded;
- For individuals receiving dividends who are citizens from countries that have entered into tax treaties with the PRC with tax rates higher than 10% but lower than 20%, the withholding agent will withhold and pay the individual income tax at the agreed effective tax rates under the treaties, without seeking such approval;
- For individuals receiving dividends who are citizens from countries without tax treaties with the PRC or under other circumstances, the withholding agent will withhold and pay the individual income tax at the rate of 20%.

Corporate investors

According to the Agreement of the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation the Prevention of Fiscal Evasion with respect to Tax on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, the PRC Government may

impose tax on dividends paid to a Hong Kong resident (including a natural person and legal entity) by a PRC company, but such tax generally does not exceed 10% of the total amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of equity interest in a PRC company, such tax generally does not exceed 5% of the total amount of dividends payable by that PRC company.

Pursuant to the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) effective from January 1, 2008 (the "**New Enterprise Income Tax Law**") and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法實施條例), a non-resident enterprise, which has not established a representative office or other premises in the PRC or whose dividends received have no effective connections with the established representative office or premises in the PRC, shall be subject to a 10% enterprise income tax on its revenues sourced within the PRC. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Which Are Overseas Non-resident Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (*Guo Shui Han* [2008] No. 897) which was promulgated by the State Administration of Taxation and became effective on November 6, 2008, a PRC resident enterprise, when distributing dividends for 2008 and for the years thereafter, shall withhold enterprise income tax at a uniform rate of 10%. Pursuant to that notice, we intend to impose a withholding tax of 10% on the dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement shall be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the rate under an applicable treaty, and payment of such refund shall be subject to approval by the PRC tax authorities.

Taxation Treaties

Investors who are not PRC residents but either reside in countries which have entered into double-taxation treaties with the PRC or reside in the Hong Kong SAR or the Macau SAR, shall be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The People's Public of China currently has signed double-taxation avoidance arrangements with the Hong Kong SAR and the Macau SAR respectively, and has signed double taxation avoidance treaties with a number of other countries, which include but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

(ii) Taxation on Sales of Shares***Individual Investors***

Pursuant to the New Individual Income Tax Law, individuals are subject to individual income tax at the tax rate of 20% on income from transfer of property. Pursuant to the Regulation on the Implementation of Individual Income Tax Law of PRC, promulgated by the State Council on January 28, 1994 and amended on December 19, 2005, February 18, 2008 and July 19, 2011, respectively, the Minister of Finance shall draft measures for levying individual income tax on income from transfer of shares, which shall come into effect upon approval of the State Council. To our knowledge, as of the Latest Practicable Date, the Minister of Finance has not issued the relevant measures.

Pursuant to the Notice on Continuing the Suspended Levy of Individual Income Tax on the Transfer of Shares by Individuals (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) jointly issued by the Ministry of Finance and the SAT on March 30, 1998, in respect of the suspended levy of individual income tax on gains realized from the sales of shares, gains on sales of shares by non-PRC resident individuals may be exempted from individual income tax. To our knowledge, as of the Latest Practicable Date, in practice the PRC tax authorities had not sought to levy individual income tax on such gains. If such tax is levied in the future, such tax may be reduced or exempted under an applicable double taxation treaty.

Corporate investors

In accordance with the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and the Regulation on the Implementation of PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), a resident enterprise shall pay the enterprise income tax at a rate of 25% for the capital gains obtained from selling company shares. For a non-resident enterprise having no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its office or establishment inside China, it shall pay the enterprise income tax at the rate of 10% for the capital gains from selling company shares. For such income taxes payable by non-resident enterprises, the obligation to withhold and pay income tax at source in accordance with relevant laws falls upon the payer, who shall withhold and pay the enterprise income tax from the amount to be paid or due payable amount when paying such amount relating to the incomes to any non-resident enterprise each time.

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), the Regulation on the Implementation of PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) and Notice of the State Administration of Taxation on Some Tax Issues Concerning the Implementation of the Enterprise Income Tax Law (*Guo Shui Han* [2010] No. 79) (國家稅務總局關於貫徹落實企業所得稅法若干稅收問題的通知(國稅函[2010]79號)), the revenue of an enterprise arising from the equity transfer shall be recognized upon the transfer agreement becoming effective and the completion of formalities relating to the change in equity. The amount of revenue generated from the equity transfer less costs incurred for the acquisition of

such equity shall be deemed as income arising from the equity transfer. In computing its income arising from the equity transfer, an enterprise should not deduct the amount of retained earnings (unallocated profit) of the investee that might be attributable to the equity transferred.

(iii) Estate Duty or Inheritance Tax

No estate duty or inheritance tax is levied in the PRC at present.

(iv) Stamp Duty

Pursuant to the terms of the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例》), the applicable PRC stamp tax on the transfers of shares of PRC public companies shall not apply to the trading in H-shares carried out outside the PRC. The Provisional Regulations provide that PRC stamp tax shall be only levied on all the types of documents executed or received and legally bound within the PRC as well as protected under the PRC laws.

(v) Tax Policies for Shanghai-Hong Kong Stock Connect

On November 10, 2014, the CSRC and the Securities and Futures Commission granted their approvals to Shanghai Stock Exchange, The Hong Kong Stock Exchange, China Securities Depository and Clearing Company Limited, Hong Kong Securities Clearing Company Limited for formal launch of the Shanghai-Hong Kong Stock Connect pilot program. Trading in shares under the Shanghai-Hong Kong Stock Connect kicked off formally on November 17, 2014.

Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (關於滬港通股票市場交易互聯互通機制試點有關稅收政策的通知) (hereinafter as "**Tax Policies for Shanghai-Hong Kong Stock Connect**"):

- From November 17, 2014 to November 16, 2017, gains on transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are temporarily exempt from individual income tax. Gains on price difference derived by mainland individual investors through trading in shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are exempt from business tax levying pursuant to current policies. Dividends derived by mainland individual investors through investment into H shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are subject to 20% of withholding income tax by H shares companies. Individual investors who have paid withholding taxes overseas, with effective taxation certificates, can apply to competent taxation authorities under the China Securities Depository and Clearing Company Limited for tax credit. Dividends derived by mainland securities investment funds through

investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are subject to individual income tax pursuant to provisions above.

- Pursuant to the Tax Policies for Shanghai-Hong Kong Stock Connect, gains on transfer of shares derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Gains on price difference derived by mainland corporate investors through trading in shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are exempt from business tax pursuant to current policies. Dividends derived by mainland corporate investors through investment into shares listed into the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Among them, dividends derived by mainland resident enterprises for holding H shares up to 12 consecutive months are subject to corporate income tax in accordance with laws. For dividends derived by mainland resident enterprises, there will be no withholding tax payable by H shares companies, and these enterprises are liable for tax reporting and payment. For the withholding tax on dividends payable by companies of non-H shares listed on the Hong Kong Stock Exchange, mainland corporate investors can apply for tax credit when reporting and paying corporate income tax.
- Pursuant to the Tax Policies for Shanghai-Hong Kong Stock Connect, mainland investors who transfer shares listed on the Stock Exchange via the Shanghai-Hong Kong Stock Connect are subject to stamp duties in accordance with current taxation requirements in Hong Kong. China Securities Depository and Clearing Company Limited and Hong Kong Securities Clearing Company Limited are authorized to levy stamp duties above on behalf of each other.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is still subject to foreign exchange controls and is not freely convertible at present. SAFE, under the authority of PBOC, is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to the Regulation of Foreign Exchange of the PRC (中華人民共和國外匯管理條例), promulgated by the State Council on January 29, 1996 and amended on January 14, 1997 and August 1, 2008, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to the approval from the SAFE while capital account items are.

The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定), promulgated by PBOC on June 20, 1996, which took effect on July 1, 1996, abolished the remaining restrictions on foreign exchange in respect of current account items while retaining the restrictions on foreign exchange transactions in respect of capital account items.

On January 28, 2013, the SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for Overseas Listings (關於境外上市外匯管理有關問題的通知) (*Hui Fa* [2013] No. 5), pursuant to which a domestic company shall, within 15 working days after the end of an overseas initial public offering, handle the registration of overseas listing at the foreign exchange bureau in the place of registration and obtain a certificate of overseas listing registration, and open respective special domestic accounts specifically for the initial public offering (or additional share issuances) or the business buyback to be used for the exchange and transfer of funds corresponding to that business. The proceeds from the overseas listing of domestic issues may be repatriated to a designated domestic account or deposited in a designated overseas account, while the use of the proceeds shall be consistent with the disclosure documents including the prospectuses, circulars and resolutions of general meetings; domestic shareholders of an overseas listed company are allowed to open a special domestic account for the increase or reduction of their shareholdings. The capital account income of domestic shareholders generated from the reduction of their shareholdings and transfer of the overseas shares of the issuers shall be repatriated to their domestic accounts designated for such reduction within two years from the day on which the income is received.

On December 26, 2014, the State Administration of Foreign Exchange issued the Notice on Relevant Issues Concerning the Foreign Exchange Administration for Overseas Listings (*Hui Fa* [2014] No. 54) (國家外匯管理局關於境外上市外匯管理有關問題的通知(匯發[2014]54號)) and at the same time repealed the rules of the same title promulgated by the State Administration of Foreign Exchange on January 28, 2013, to simplify the foreign exchange business operations of domestic enterprises for overseas listings. The major changes include:

- cancellation of approval for the repatriation of proceeds raised overseas for foreign exchange settlement from the listing of foreign shares overseas so that companies listed overseas may directly handle foreign exchange settlement at banks on the strength of their business registration certificates.
- integration of foreign exchange accounts and centralized processing of the exchange and transfer of relevant funds. Domestic companies are required to open a “special foreign exchange account for domestic companies listed overseas” at banks within the PRC in line with their needs. They are no longer required to open respective accounts specifically for their initial public offering (or additional share issuances) or business buyback. Domestic shareholders are required to open a “special account for domestic shareholders for holding shares overseas” at banks within the PRC in line with their needs. They are no longer required to open respective accounts specifically for the increase or decrease in their shareholdings, assignment of shares listed overseas and other businesses.

- allowance of domestic companies to repurchase, or domestic shareholders to repatriate, transfer freely and settle the foreign exchange balance after they remit funds out of the PRC they repurchase their domestic shares or after the domestic shareholders increase their holding of the domestic shares of the domestic companies in accordance with the relevant regulations.

SUMMARY OF PRINCIPAL PRC LEGAL AND REGULATORY PROVISIONS

This appendix contains a summary of laws and regulations on companies and securities in China, certain major differences between the PRC Company Law and the Companies Ordinance as well as the additional regulatory provisions of the Hong Kong Stock Exchange on joint stock limited companies of China. The principal objective of this summary is to provide an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which may be important to the potential investors. For discussion of laws and regulations specifically governing the business of the Company, please refer to “Regulations Overview”.

The PRC Legal System

The PRC legal system is based on the Constitution of the PRC (the “**Constitution**”) and is made up of written laws, administrative regulations, local regulations, separate rules, autonomy regulations, departmental rules of the State Council, rules of local governments and international treaties of which the PRC government is a signatory. Court judgments may be used for judicial reference and guidance but do not constitute legally binding precedents.

According to the Constitution and the Legislation Law of the PRC, the National People’s Congress of the PRC (the “**NPC**”) and the Standing Committee of the NPC are empowered to exercise the legislative power of the PRC. The NPC has the power to enact and amend the laws governing civil and criminal matters, state organs and other aspects. The Standing Committee of the NPC is empowered to enact and amend laws other than those required to be enacted by the NPC, and may supplement and amend the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments shall not be in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities directly under the control of the central government and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such local regulations do not contravene and provision of the Constitution, laws and administrative regulations.

The ministries, commissions, the PBOC, NAO of the State Council, and the institutions of all businesses with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and administrative regulations, decisions and rulings of the State Council.

The people’s congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of

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such cities, which will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions but such local regulations shall conform with the Constitution, laws, administrative regulations, and the relevant local regulations of the relevant provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the nationality (nationalities) in the areas concerned.

The people's governments of the provinces, autonomous regions, and municipalities directly under the central government and the comparatively larger cities may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at and below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to Resolutions of the Standing Committee on Improving Interpretation of Laws passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on questions involving the specific application of laws and decrees in court trials; interpretation of questions involving the specific application of laws and decrees

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in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate; if the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and competent authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent authorities under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.

The PRC Judicial System

Under the Constitution and the Law of Organization of the People's Courts of the PRC, the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts.

The local people's courts are comprised of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts are organized into civil, criminal, administrative, supervision and enforcement divisions. The intermediate people's courts are organized into divisions similar to those of the primary people's courts, and are entitled to organize other courts as needed such as the intellectual property division.

The higher level people's courts supervise the primary and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the judicial administration of the people's courts at all levels.

The people's courts apply a two-tier appellate system. A party may appeal against a judgment or order of a local people's court to the people's court at the next higher level. Second judgments or orders given at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. However, if the Supreme People's Court or a people's court at a higher level finds an error in a judgment which has been given in any people's court at a lower level, or the presiding judge of a people's court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC adopted on April 9, 1991 and amended on October 28, 2007 and August 31, 2012 sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law of the PRC. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the object of the action, provided that the provisions of the Civil Procedure Law of the PRC regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration panel in the PRC, the other party may apply to the people's court for the enforcement of the same. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law. There are time limits of two years imposed on the right to apply for such enforcement.

When a party applies to a people's court for enforcing an effective judgment or ruling by a people's court against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court's examination based on the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons related to the public interests.

The PRC Company Law, Special Regulations and Mandatory Provisions

A joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is mainly subject to the following three laws and regulations in China:

- the Company Law of the People's Republic of China (the "**PRC Company Law**"), which was promulgated by the Standing Committee of the NPC on December 29, 1993, came into effect on July 1, 1994, revised as of December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively and the latest revision of which was implemented on March 1, 2014;

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- the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (the “**Special Regulations**”), which was promulgated by the State Council on August 4, 1994 and was applicable, to the overseas share offering and listing of joint stock limited companies; and
- the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (the “**Mandatory Provisions**”), which was jointly promulgated by the former Securities Committee of the State Council and the State Economic Restructuring Commission on August 27, 1994, and stated the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Company, the summary of which is set out in Appendix V of this prospectus.

Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General Provisions

A joint stock limited company refers to an enterprise legal person incorporated under the PRC Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to the total value of its assets.

A SOE that is reorganized into a joint stock limited company shall comply with the conditions and requirements specified by laws and administrative regulations for the modification of its operation mechanisms, the disposal and valuation of the company’s assets and liabilities and the establishment of internal management organizations.

A company must conduct its business in accordance with law and professional ethics. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liability associated with the debts of the invested enterprises.

Incorporation

A joint stock limited company may be incorporated by promotion or public subscription.

A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC. According to the Special Regulations, SOEs or enterprises with the majority of their assets owned by the PRC Government may be restructured into joint stock limited companies which

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may issue shares to overseas investors in accordance with the relevant regulations. These companies, if incorporated by promotion, may have less than five promoters and may issue new shares once incorporated.

For company established by promotion, the registered capital is the total capital registered under the relevant companies registration authorities and being subscribed for by the promoters. Shares in the company shall not be offered to other persons unless the share capital subscribed for by the promoters has been paid up. For company established by subscription, the registered capital is the amount of its total paid-up capital as registered with the relevant companies registration authorities.

The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing 50% of the shares in the Company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the board of supervisors of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established, and has the status of a legal person, after the business license has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Allotment and Issue of Shares

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value.

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A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as “overseas listed and foreign invested shares”. Shares issued to investors within the PRC by joint stock limited companies, which also issues overseas listed and foreign shares, are known as “domestic shares”. Upon approval of the securities regulatory authority of the State Council, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance program may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the PRC Company Law, the promoter may make capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised by monetary value and transferred lawfully, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made with non-monetary assets, a valuation and verification of the asset contributed must be carried out without any over-valuation or under-valuation, subject to any provisions of the law or administrative regulations on valuation.

According to the Special Regulations, the shares listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency. Domestic shares shall be issued in registered form.

Under the PRC Company Law, when the company issues shares in registered form, it shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder acquired the shares.

Increase of Share Capital

According to the PRC Company Law, when the joint stock limited company issues new shares, resolutions shall be passed by a shareholders’ general meeting, approving the class and number of the new shares, the issue price of the new shares, the commencement and end of the new share issuance and the class and amount of new shares to be issued to existing shareholders. When the company launches a public issuance of new shares with the approval of the securities regulatory authorities of the State Council, it shall publish a prospectus and

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financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by a shareholders' general meeting;
- it shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors may within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received, require the company to pay its debts or provide guarantees covering the debts; and
- it shall apply to the relevant Industry and Commerce Administration for the registration of the reduction in registered capital.

Repurchase of Shares

According to the PRC Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes: (i) to reduce its registered capital; (ii) to merge with another company that holds its shares; (iii) to grant its shares to its employees as incentives; (iv) to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' general meeting; and (v) other purposes permitted by laws and administrative regulations.

The purchase of shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution passed by the shareholders' general meeting. Following the purchase of shares in accordance with the foregoing, such shares shall be cancelled within ten days from the date of purchase in the case of (i) above and transferred or cancelled within six months in the case of (ii) or (iv) above. Shares acquired in accordance with (iii) above shall not exceed 5% of the total number of the company's issued shares. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the company's employees within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the PRC Company Law, transfer of shares by shareholders shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No modifications of registration in the share register caused by transfer of registered shares shall be carried out within 20 days prior to the convening of shareholders' general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on alternation of registration in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within 30 days prior to convening of shareholders' general meeting or five days prior to any base date for determination of dividend distributions.

Under the PRC Company law, shares owned by promoters shall not be transferred within one year from the date of incorporation of the company and shares issued prior to the public issuance of shares shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Directors, supervisors and senior management shall declare to the company that their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from their positions with the company.

Shareholders

Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquires on the company's operations;
- the right to bring an action in the people's court to rescind resolutions passed by shareholders' general meetings and board of directors where the articles of association is violated by the above resolutions;

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- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of residual properties of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. Under the PRC Company Law, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove the directors and supervisors (other than the supervisor representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the board of supervisors;
- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and losses recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;

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- to amend the company's articles of association; and
- other powers as provided for in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the PRC Company Law, an extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid-in share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- whenever the board of directors deems necessary;
- when the board of supervisors so requests; or
- other circumstances as provided for in the articles of associations.

Under the PRC Company Law, shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the PRC Company Law, notice of shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of our extraordinary shareholders' general meetings shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer's share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the registered shareholders 45 days in advance

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to the meeting, and the matters to be considered and time and venue of the meeting shall be specified. The written reply of shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting.

A shareholder may entrust a proxy to attend a general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Special Regulations and the Mandatory Provisions, shareholders' general meeting may be convened where the number of voting shares held by the shareholders present at the meeting reaches one-half or more of the company's total voting shares. If this is not attained, the company shall within five days notify the shareholders again of the matters to be considered and time and venue of the meeting to shareholders in the form of public announcement. The company may convene the shareholders' general meeting after such public announcement. Pursuant to the Special Regulations, modification or abrogation of rights conferred to any class of shareholders shall be passed both by special resolution of shareholders' general meeting and by class meeting convened respectively by shareholders of the affected class.

Pursuant to the Special Regulations, where the company convenes shareholders' annual general meeting, shareholders holding more than 5% of voting shares have a right to submit to the company new proposals in writing, in which the matters falling within the scope of shareholders' general meeting shall be placed in the agenda of the meeting.

Under the PRC Company Law, shareholders present at shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of director or supervisor to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the PRC Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' general meeting regarding the following matters shall be adopted by more than two-third of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issue of any types of shares, warrants or other similar securities; (iv) the issue of debentures; (v) the merger, division, dissolution, liquidation or change in the form of the company; (vi) other matters

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considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the PRC Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board

Under the PRC Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors mainly exercises the following powers:

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed by shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- to decide on the company's internal management structure;

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- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- to exercise other powers under the articles of association of the company.

Meetings of the board of directors

Under the PRC Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote on the resolutions at the Board meeting. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations, the company's articles of association or the resolution of the general meetings, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Chairman of the Board

Under the PRC Company Law, the board of directors shall appoint a chairman and may appoint a vice chairmen. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Qualification of Directors

The PRC Company Law provides that the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offence of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- a person who has been a former director, factory manager or manager of a company or enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; or
- a person who is liable for a relatively large amount of debts that are overdue.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Supervisory Committee

A joint stock limited company shall have a Supervisory Committee composed of not less than three members. The Supervisory Committee is made up of representatives of the shareholders and an appropriate proportion of representatives of employees of the company. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of employees shall not be less than one-third of the supervisors. Representatives of employees of the company in the Supervisory Committee shall be democratically elected by the employees at the employees' representative assembly, employees' general meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The Supervisory Committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the Supervisory Committee are elected with approval of more than half of all the supervisors. The chairman of the Supervisory Committee shall convene and preside over the meetings of the Supervisory Committee. In the event that the chairman of

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the Supervisory Committee is incapable of performing or not performing his duties, the vice chairman of the Supervisory Committee shall convene and preside over the meetings of the Supervisory Committee. In the event that the vice chairman of the Supervisory Committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the Supervisory Committee.

Each term of office of a supervisor is three years and he or she may serve consecutive terms upon re-election. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The Supervisory Committee exercises the following powers:

- to review the company's financial position;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolution;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of shareholders' extraordinary general meetings and to convene and preside over shareholders' general meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' general meeting under the PRC Company Law;
- to make proposals at shareholders' general meeting;
- to initiate proceedings against directors and senior management; and
- other powers specified in the articles of association.

Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The Supervisory Committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work at the company's expense.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of the company.

Manager and Senior Management

Under the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- to be in charge of the company's business and management activities and organize for the implementation of resolutions of the board of directors;
- to organize the implementation of the company's annual business plans and investment schemes;
- to draft plans for the establishment of the Company's internal management structure;
- to formulate the basic management system of the company;
- to formulate specific rules and regulations of the company;
- to recommend the appointment and dismissal of deputy managers and financial officers;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors or the articles of association.

Other provisions of the articles of association concerning the manager's powers shall also be complied with. The manager shall be in attendance at board meetings.

Pursuant to the PRC Company Law, senior management shall mean the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association. The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to manager and senior management of the company.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and have the fiduciary and diligent duties to the company. Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties. Directors and senior management are prohibited from:

- misappropriating of company funds;
- depositing company funds into accounts under his own name or the name of other individuals;
- loaning company funds to others or providing guarantees in favor of others supported by the company's assets in violation of the articles of association or without prior approval of the shareholders' general meeting or the board of directors;
- entering into contracts or transactions with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;
- using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- accepting and possessing the commissions paid by a third party for transactions conducted with the company;
- unauthorized divulgence of confidential information of the company; or
- other acts in violation of their fiduciary duties to the company.

A director, supervisor or senior management member who contravenes any laws, administrative regulations or the company's articles of association in the performance of his duties shall be held liable for compensation to any loss caused to the company.

Finance and Accounting

Under the PRC Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each financial year prepare a financial report which shall be audited by an accounting firm as required by laws. The company's financial and accounting reports shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

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Pursuant to the PRC Company Law, a joint stock limited company shall make its financial statements available at the company for inspection by the shareholders at least 20 days before the convening of a shareholders' annual general meeting. A joint stock limited company with publicly offered shares must also publish its financial statements.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed by the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve funds shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

No profit shall be distributed in respect of the shares in company held by itself.

The premium received through issuance of shares at prices above nominal value and other incomes required by the finance department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

Reserve funds shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and Retirement of Accounting Firms

Pursuant to the PRC Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' general meeting or the board of directors in accordance with provisions of the articles of association. The accounting firm should be allowed to make representations when the shareholders' general

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meeting or the board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it engages without any refusal, withholding and misrepresentation.

The Special Provisions provide that a company shall employ an independent accounting firm complying with the relevant regulations to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from their appointment at a shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

Distribution of Profits

Pursuant to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory reserve fund is drawn. The Special Provisions provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed foreign invested shares.

Dissolution and Liquidation

Pursuant to the PRC Company Law, a company shall be dissolved by reason of the following: (i) the term of its operations set down in the articles of association has expired or other events of dissolution specified in the articles of association have occurred; (ii) the shareholders' general meeting have resolved to dissolve the company; (iii) the company is dissolved by reason of merger or division; (iv) the business license is revoked, or the company is ordered to close down or be dissolved; or (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent 10% or more of the voting rights of all its shareholders, on the grounds that the company suffers significant hardships in its operation and management, rendering ongoing existence of the company a cause for significant losses for shareholders, and where this cannot be resolved through other means.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment to the articles of association in accordance with provisions set out above shall require approval of two-thirds or more of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved in the circumstances described in subparagraphs (i), (ii), (iv), or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

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The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors may apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct a liquidation in a timely manner.

The liquidation group shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notice or public announcement;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the company's remaining assets after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within ten days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' general meeting or people's court for confirmation.

The company's remaining assets after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and debts shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before payments are made in accordance to the foregoing provisions.

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Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the people's court for a declaration for bankruptcy.

Following such declaration, the liquidation group shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' general meeting or the people's court for verification. Thereafter, the report shall be submitted to company registration authorities in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. A member of the liquidation group is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas Listing

Pursuant to the Special Provisions, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed foreign invested shares and domestic shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issues within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

If a share certificate in registered form is lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After the people's court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement share certificate. A separate procedure regarding the loss of overseas listed foreign invested share certificates is provided for in the Mandatory Provisions.

Securities Laws and Regulations

The PRC has promulgated a number of regulations that relate to issuance and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory and execution

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arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the two departments and reformed the CSRC.

On April 22, 1993, the State Council promulgated the Provisional Regulations on Issuance and Trading of Shares (股票發行與交易管理暫行條例). These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information, investigation and penalties with respect to a listed company and dispute settlement. Pursuant to these regulations, a company must obtain the approval of the Securities Committee to offer its shares outside the PRC. In addition, if a company proposes to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it must comply with the Provisional Regulations on Issuance and Trading of Shares. Provisions of these regulations in relation to acquisitions of listed companies and disclosure of information expressly apply to listed companies in general without being confined to listed companies on any particular stock exchange.

The Securities Law took effect on July 1, 1999 and was revised for the first time as of August 28, 2004, for the second time on October 27, 2005 and for the third time on August 31, 2014. This is the first national securities law in the PRC governing, among other things, issuance and trading of securities, takeovers of listed companies, securities exchanges, and the duties of the securities regulatory authorities under the State Council. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that enterprises in the PRC which intend to directly or indirectly issue securities outside the PRC or to list their securities outside the PRC must obtain prior approval from the securities regulatory authorities under the State Council. Article 239 of the Securities Law provides that specific measures in respect of shares of companies in the PRC that are to be subscribed for and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issuance and trading of foreign issued shares (including H Shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC. The Securities Law also regulates short swing trading conducted by a director, supervisor, executive or a shareholder of a listed company in China in the PRC securities market. Article 47 of the Securities Law provides that the gains made by a director, supervisor, executive or a shareholder of a listed company in China holding 5% or more of the shares of the listed company from selling shares of the company within six months from the purchase of such shares or buying shares of the company within six months from the sale of such shares shall belong to the company and the board of directors of the company shall collect such gains. However, an underwriter which holds 5% or more of the shares of a listed company in China from buying the unsold shares in accordance with the underwriting agreement shall not be subject to the six-month moratorium for selling of such shares. Where the board of directors of the company fails to perform the duties stipulated in the preceding sentence, the shareholders shall have the right to demand that the board of directors perform the duties within 30 days.

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Where the board of directors of the company fails to perform the duties within the aforesaid period, the shareholders shall have the right to file a lawsuit directly in their own name with a People's court to protect the interests of the company. Where the board of directors of the company fails to perform the duties in accordance with the provisions of the preceding sentence, the directors who are accountable shall bear joint liability in accordance with the provisions of the law. Article 195 of the Securities Law provides that directors, supervisors, senior management personnel of a listed company and shareholders holding 5% or more of the shares of a listed company who buy and sell the company's shares in violation of the provisions of Article 47 shall be issued a warning and may be subject to a fine ranging from RMB30,000 to RMB100,000.

Arbitration and Enforcement of Arbitral Awards

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer and, in the case of the Hong Kong Listing Rules, also in contracts between the issuer and each of its directors and supervisors, to the effect that any disputes or claims arising (i) between holders of overseas listed foreign invested share and the issuer, (ii) between holders of overseas listed foreign invested share and the issuer's directors, supervisors, manager or other senior management, and (iii) between holders of overseas listed foreign invested share and holders of domestic shares may be referred to arbitration for resolution. Matters in arbitration include any disputes or claims in relation to the issuer's affairs or as a result of any rights or obligations under its articles of association, the PRC Company Law or other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, as the company or its shareholders, directors, supervisors, managers or other senior management, shall comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC. In accordance with the Arbitration Regulations of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會仲裁規則) amended on November 4, 2014 and implemented on January 1, 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including

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disputes involving Hong Kong based on the agreement of the parties. CIETAC is established in Beijing and its branches and centers have been set up in Shenzhen, Shanghai, Tianjin, Chongqing and Hong Kong.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce on the principle of reciprocity the foreign arbitral awards that are made within the territory of another party to the New York Convention; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

On June 18, 1999, an arrangement was reached between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. The Supreme People's Court of the PRC adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong SAR (關於內地與香港特別行政區相互執行仲裁裁決的安排), which became effective on February 1, 2000. In accordance with this arrangement, awards made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in China.

Overseas Investment Regulations

Pursuant to the Regulations on the Administration of Overseas Investments (境外投資管理辦法) promulgated by the MOFCOM on September 6, 2014 which became effective on October 6, 2014, enterprises shall obtain approval from the MOFCOM for conducting overseas investments involving sensitive countries and regions and/or sensitive sectors, or otherwise, file the investments with the MOFCOM and provincial commerce administrative authorities. In case

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of a change in overseas investment after being approved or filed, the enterprise shall complete the procedures for the change with the authority by which the investment was approved or filed.

Pursuant to the Administrative Measures on Approval and Filing of Overseas Investment (境外投資項目核准和備案管理辦法) promulgated by the NDRC which became effective on May 8, 2014 and the Catalogue of Government-endorsed Investment Projects (version 2014) published by the State Council on October 31, 2014 with immediate effect, enterprises shall obtain approval from the NDRC for conducting overseas investments involving sensitive countries and regions and/or sensitive sectors. Investments by enterprises under central government not applicable to the preceding requirements and investments by local enterprises with Chinese investment amounting US\$300 million or above shall be filed with the NDRC, and investments by local enterprises with Chinese investment below US\$300 million shall be filed with investment administrative authorities of provincial government.

Pursuant to Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (境內機構境外直接投資外匯管理規定) promulgated by the SAFE which became effective on August 1, 2009, upon obtaining approval for overseas investment, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments with the foreign exchange administrative authorities. Pursuant to the Notice on Further Simplifying and Improving Foreign Exchange Control Policies on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by the SAFE on February 13, 2015 with effect from June 1, 2015, the SAFE shall cancel administrative approval requirements on foreign exchange registration under overseas direct investment, which shall instead be directly reviewed and handled by banks in accordance with the notice and the Guides on Foreign Exchange Business Operation attached thereto whilst indirectly supervised by the SAFE and its branches through banks.

MATERIAL DIFFERENCES BETWEEN CERTAIN COMPANY LAW MATTERS IN THE PRC AND HONG KONG

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited liability company incorporated under the PRC Company Law, to which we are and will be subject. This summary is, however, not intended to be an exhaustive comparison.

SHAREHOLDER MEETINGS — QUORUM

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that our general meeting may be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of

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the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, we must within five days notify our shareholders by way of a public announcement and we may hold the shareholders' general meeting thereafter.

SHAREHOLDER MEETINGS — VOTING

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting.

Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by our shareholders present in person or by proxy at a shareholders' general meeting except in cases such as proposed amendments to our Articles of Association, increase or decrease of registered capital, merger, division, dissolution or transformation, which require two-thirds of the affirmative votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

VARIATION OF CLASS RIGHTS

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting; (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question; (iii) by agreement of all the members of the Company; or (iv) if there are provisions in the Articles of Association relating to the variation of those rights, then in accordance with those provisions.

We (as required by the Hong Kong Listing Rules and the Mandatory Provisions) have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes. The special procedures for voting by a class of shareholders shall not apply in the following circumstances: (i) where we issue and allot, either separately or concurrently in any 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the existing issued overseas listed shares and the domestic listed shares; (ii) where the plan for the issue of domestic listed shares and overseas listed shares upon our establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) where the transfer of shares from the holders of

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domestic listed shares to foreign investors upon receiving the approval of the State Council Securities regulatory authority and other approving authority (if applicable) and then listing and transacting in the overseas stock exchange.

DERIVATIVE ACTION BY MINORITY SHAREHOLDERS

Hong Kong law permits minority shareholders to start a derivative action on behalf of the company against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing the company from suing the directors in breach of their duties in its own name.

Although the PRC Company Law gives our Shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by our shareholders in a general meeting, or by the Board of Directors, that violates any law, administrative rules or Articles of Association or if the Directors or management personnel violate laws, administrative rules or articles of association when performing their duties and cause losses to the company, there is no form of proceedings equal to a derivative action. The Mandatory Provisions, however, provide us with certain remedies against the Directors, Supervisors and officers who breach their duties to us. In addition, as a condition to the listing of our H shares on the Hong Kong Stock Exchange and in accordance with our Articles of Association, each of our Directors and Supervisors is required to give an undertaking in favors of us acting as agent for each of our Shareholders. This allows minority shareholders to act against our Directors and Supervisors in default.

MINORITY SHAREHOLDER PROTECTION

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

The Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, may not relieve a director or supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a director or supervisor of our assets or the individual rights of other shareholders.

ARBITRATION OF DISPUTES

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers may be resolved through the courts. The Mandatory Provisions and our Articles of Association provide that disputes between a holder of H shares and the Company and its directors, supervisors, managers or other members of senior management or a holder of domestic listed shares, arising from the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations which concerns the affairs of the Company should, with certain exceptions, be referred to arbitration at either the Hong Kong International Arbitration Center (“**HKIAC**”) or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG LISTING RULES AND SHANGHAI LISTING RULES

As our A Shares are listed on the Shanghai Stock Exchange, we are also subject to Shanghai Stock Exchange Listing Rules. Set out below is a summary of material differences between Hong Kong Listing Rules and Shanghai Stock Exchange Listing Rules:

- **Periodic financial reporting**

There are material differences in financial reporting standards and practices regarding, for examples, industry-specific financial reporting requirements, announcement of preliminary results, form and content of periodic financial reports and post-vetting of periodic financial reports.

- **Classification and disclosure requirements for notifiable transactions**

The method of classification of notifiable transactions under Hong Kong Listing Rules and the disclosure requirement pertaining to such transactions differ from those under the Shanghai Stock Exchange Listing Rules.

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- **Connected transactions**

The definition of a connected person under the Hong Kong Listing Rules and the definition of a related party under the Shanghai Stock Exchange Listing Rules are different. In addition, the disclosure and shareholder approval requirements for connected transactions under the Hong Kong Listing Rules and for related party transactions under the Shanghai Stock Exchange Listing Rules, as well as the respective exemptions are different.

- **Disclosure of inside information**

The scope, timing and method of disclosure of inside information are different between Hong Kong Listing Rules and Shanghai Stock Exchange Listing Rules.

This Appendix sets out a summary of the principal provisions of the Articles of Association of the Company, which was adopted by our shareholders in the shareholders' general meeting held on July 28, 2015 and will become effective upon the listing date of the H shares on the Hong Kong Stock Exchange. This Appendix mainly aims to provide an overview of the Articles of Association for potential investors. As it is a summary, it may not contain all the information important to the potential investors.

DIRECTORS AND THE BOARD

Power to allocate and issue shares

The Articles of Association does not contain clauses that authorize the Board of Directors to allocate or issue shares. The Board of Directors shall prepare issue proposal for share allotment or issue, which are subject to approval by the shareholders at the shareholders' general meeting in the form of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in appropriate laws and administrative regulations.

Power to dispose of assets of the Company or our subsidiaries

The Directors may decide on matters including external investment, acquisitions and disposals of assets, pledge of assets, external guarantees, entrusted wealth management and connected transactions within the scope of authorization by the shareholders' general meeting.

Indemnification or compensation for loss of office

As provided in the contract entered into between the Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of the Company, subject to the approval of the shareholders and supervisors at the shareholders' general meeting in advance.

Acquisition of the Company refers to any of the following circumstances:

- (i) an offer made from any person to all the shareholders; or
- (ii) an offer is made by any person such that the offeror will become the Controlling Shareholder of the Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received shall belong to the person who sells the shares for accepting the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person in a proportional manner and all related expenses shall not be deducted from these payments distributed.

Loans to Directors, Supervisors, managers or other senior management

The Company shall neither provide the Directors, Supervisors, managers or senior management of the Company or our parent company with loans or loan guarantees either directly or indirectly nor provide persons related to the above personnel with loans or loan guarantees.

A loan guarantee provided by the Company in breach of the provisions referred to above shall be unenforceable against the Company unless:

- (i) that the loan is provided to a person connected with a Director, Supervisor, manager or senior management of the Company or its holding company, and the lender is not an informed person; or
- (ii) that the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The following circumstances are not subject to the foregoing prohibition:

- (i) the provision by the Company of a loan or a loan guarantee to its subsidiaries;
- (ii) the provision by the Company of a loan or a loan guarantee or other funds to any of its Directors, Supervisors, managers or other senior management to meet expenditure incurred by him or her for the purposes of the Company or for the purpose of enabling him or her to perform his or her duties properly, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- (iii) the Company may provide a loan to or provide a guarantee for a loan extended by another person to any of its Directors, Supervisors, managers or other senior management or other connected persons where the ordinary course of its business includes the provision of loans or guarantees and provided that the provision of loans or such guarantees is on normal commercial terms.

Provide financial aid for acquiring our shares or shares of any of our subsidiaries

The Company or our subsidiaries shall not provide any financial assistance at any time or in any manner to a person that acquires or plans to acquire our shares. Such person include any who assumes obligations, directly or indirectly, from acquiring the shares.

The Company or our subsidiaries shall not provide such person mentioned in the preceding paragraph with financial aid at any time or in any manner to mitigate or exempt the obligations of that person.

The following transactions are not prohibited:

- (i) financial aid provided by the Company which is in good faith in our interest and the main purpose of the financial aid is not to acquire our shares or is an incidental part of a master plan of the Company;
- (ii) lawful distribution of our properties by way of dividend;
- (iii) distribution of dividends in the form of shares;
- (iv) reduction of the registered capital, repurchase of the shares or adjustment of the equity structure pursuant to the Articles of Association;
- (v) the Company grants loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in reduction in the net assets of the Company or even if the net assets are reduced, this financial aid is paid from the profit available for distribution; and
- (vi) the Company provides the employee stock ownership plan with fund, provided that such loans shall not result in reduction in the net assets of the Company or, even if the net assets are reduced, this financial aid is paid from the profit available for distribution.

For the purpose of the above provisions,

- (1) financial aid includes, but is not limited to:
 - (i) gifts;
 - (ii) guarantees (including acts of the guarantor assuming liabilities or providing property to ensure that the obligor performs the obligations), compensation (other than compensation in respect of the Company's own default), release or waiver of rights;
 - (iii) provision of loans or entering into agreements under which the Company needs to perform its obligations ahead of the other contracting parties, or a change in the parties to, or the assignment of rights arising under, such loans or agreements; and
 - (iv) financial aid provided by the Company in any other manner when it is insolvent, has no net assets, or will suffer significant decreases in net assets.

- (2) assumption of obligations includes assuming obligations by making an agreement or arrangement (whether enforceable or unenforceable, and whether made on one's own account or on the account of any other person) or by changing one's financial position by any other means.

Disclosure of interests in contracts with the Company or any of Our Subsidiaries and voting events regarding the contracts

When any of the Directors, Supervisors, managers and other senior management has material interests in the contracts, transactions or arrangements that the Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that the Company has entered into with the Directors, Supervisors, managers and other senior management), the persons shall disclose the nature and degree of their interests to the Board of Directors as soon as possible no matter whether the above matters are subject to the approval of the Board of Directors in normal circumstances.

Except as provided in Note 1 to Appendix III of the Hong Kong Listing Rules or exceptions permitted by the Hong Kong Stock Exchange, a Director shall not be entitled to vote on nor shall be counted in the quorum present at that meeting in relation to any resolution of the Board in respect of any contract or arrangement or any other relevant proposals in which he or any of his associates as defined in the Hong Kong Listing Rules has any material interest.

Unless the Directors, Supervisors, managers and other senior management who have interests have made disclosure to the Board of Directors in accordance with the above requirements and the Board of Directors approves the matters at the meeting in which they are not included in the quorum nor participate in voting, the Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of the acts of related Directors, Supervisors, managers and other senior management violating their obligations.

Where connected persons or associates of the Directors, Supervisors, managers and other senior management have interests in certain contracts, transactions and arrangements, the related Directors, Supervisors, managers and other senior management shall be deemed to have interests.

In the event that, prior to the Company's initial consideration of such contracts, transactions, or arrangements, Directors, Supervisors, managers and other senior management of the Company have delivered a written notice to the Board, stating his interests in such future contracts, transactions, or arrangements, the Directors, Supervisors, managers and other senior management of the Company shall be deemed to have made the disclosure as provided in the Articles of Association with respect to the statement(s) contained in the notice.

Remuneration

The Company shall sign written agreements with the Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the shareholders' general meeting, including:

- (i) remuneration for providing services as the Directors, Supervisors or senior management of the Company;
- (ii) remuneration for providing services as the Directors, Supervisors or senior management of our subsidiaries;
- (iii) remuneration for providing other services for management of the Company and our subsidiaries; and
- (iv) compensation received by the Directors or Supervisors as a result of loss of position or retirement.

No Director or Supervisor shall institute any litigation against the Company over any interest payable relative to the above unless provided for in the above contracts.

Resignation, appointment and dismissal

None of the following persons shall serve as our Director, Supervisor, manager or other senior management:

- (i) anyone who has no civil capacity or has restricted civil capacity;
- (ii) anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;
- (iii) anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of the company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of the company or enterprise;
- (iv) anyone who has served as the legal representative of a company or enterprise whose business license was revoked and whose operation was ordered to be terminated due to violation of the law, was personally liable, and is within three years of the date on which the business license of the Company or enterprise was revoked;

- (v) anyone who has a large sum of debt, which was not paid at maturity;
- (vi) anyone who has been barred from entry into the securities market by the securities regulatory authority of the State Council for a certain period and such period has not expired;
- (vii) anyone who is investigated by the judicial agencies for violation of criminal law and whose case is pending;
- (viii) anyone who may not serve as a head of the company pursuant to the provisions of the laws and administrative regulations;
- (ix) anyone who is not a natural person;
- (x) anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made;
- (xi) other contents required by the legal, administrative laws or authorities regulations.

Any election, appointment of Directors, Supervisors or senior management in violation of the above provisions shall be invalid. The Company may remove the Director, Supervisor, manager and other senior management in the event of his or her involvement in the said circumstances during his or her term of office.

The validity of the acts of the Directors, managers and other senior management on behalf of the Company to bona fide third parties shall not be affected by any irregularities in their appointment, election or qualifications.

The Company has the Board of Directors. The Board of Directors consists of 11 directors, of which there shall be one chairman, four independent directors and may appoint one or two vice chairmen.

The Board of Directors are elected at the shareholders' general meeting and serves three-year terms. Upon expiration of the term, the Director may be re-elected.

The chairman of the Board shall be elected and dismissed by a vote of more than two thirds of all the Directors, and the vice chairman of the Board shall be elected and dismissed by a vote of more than one half of all the Directors.

The Directors are not required to hold any shares of the Company.

Prior to the maturity of his term, a Director shall not be removed without cause from his office by the General Meeting. Subject to compliance with related laws and administrative regulations, the General Meeting may remove any Director whose term has not expired by an ordinary resolution without affecting any claim for damages that may be made pursuant to any contract.

Duties

The controlling directors and actual controllers shall bear the obligations of good faith and diligence towards the Company and public shareholders.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which our shares are listed, Directors, Supervisors, managers and other senior management in the exercise of their powers owe the following obligations to each shareholder:

- (i) not to cause the Company to go beyond the business scope specified by its business license;
- (ii) to act honestly in what they consider to be the best interest of the Company;
- (iii) not to deprive in any way the Company of its assets, including (but not limited to) opportunities beneficial to the Company;
- (iv) not to deprive shareholders of their personal interests, including (but not limited to) rights to distributions and to vote, except in a Company reorganization submitted in accordance with the provisions of the Articles of Association and adopted at a shareholders' general meetings.

When performing their duties, the Directors, Supervisors, managers and other senior management must comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have undertaken. This principle includes, but is not limited to, performing the following obligations:

- (i) acting honestly in the best interest of the Company;
- (ii) exercising his duties within the scope specified and not to act ultra vires;
- (iii) exercising conferred discretionary powers personally without being manipulated by others; not transferring discretionary powers to other persons unless and to the extent permitted by laws and administrative regulations or with the informed consent of shareholders given in a general meeting;

- (iv) treating shareholders of the same class equally and shareholders of different classes fairly;
- (v) entering into any contract, transaction or arrangement with the Company is not allowed, unless in line with the Articles of Association or otherwise by the approval of the shareholders' general meeting with its full knowledge;
- (vi) seeking private interests using the properties of the Company in any manner is not allowed, unless agreed by the shareholders' general meeting with its full knowledge;
- (vii) using one's position to take bribes or other illegal gains is not allowed, nor is any form of embezzlement of our property, including, but not limited to, opportunities beneficial to the Company;
- (viii) accepting commissions associated with transactions of the Company is not allowed unless agreed by the shareholders' general meeting with its full knowledge;
- (ix) compliance with the Articles of Association, discharging duties in a faithful manner, safeguarding the interests of the Company rather than seeking private gain by taking advantage of one's position and authority in the Company;
- (x) competing with the Company in any manner is not allowed, unless agreed by the shareholders at the shareholders' general meeting with its full knowledge;
- (xi) misappropriation of our funds or lending these funds to others is not allowed, nor is depositing the assets of the Company in an account opened in one's own name or other names, nor is using the assets of the Company to provide guarantees for the debts of the shareholders or other individuals;
- (xii) disclosure of any confidential information relating to the Company obtained during employment without the consent of the shareholders' general meeting with its full knowledge; unless in the interest of the Company, using such information is also not allowed; however, under the following circumstances the information may be disclosed to a court or other competent government agencies as required by (a) the provisions of the law; (b) the public interest; (c) the interest of the Directors, Supervisors, managers or other senior management.

The Directors, Supervisors, managers and other senior management may not direct the following personnel or institutions ("**related parties**") to do acts that the Directors, Supervisors, managers and other senior management is prohibited from doing:

- (i) spouses or minor children of the Directors, Supervisors, managers and other senior management of the Company;

- (ii) trustees of the directors, supervisors, managers and other senior management or the persons mentioned in (i);
- (iii) partners of the directors, supervisors, managers and other senior management or persons mentioned in (i) and (ii);
- (iv) a company in which that any of the Directors, Supervisors, managers or other senior management, alone or jointly with one or more persons referred to (i), (ii) and (iii) and other Directors, Supervisors, managers or other senior management; a company in which that Director, Supervisor, manager or other senior management, alone or jointly with one or more persons referred to in (i), (ii) or (iii) above or other Directors, Supervisors, managers or other senior management has a de facto controlling interest; and
- (v) directors, supervisor, manager or other senior management of the controlled companies mentioned in (iv).

The fiduciary duties owed by the Directors, Supervisors, managers and other senior management may not necessarily terminate with the expiration of their terms; their obligations to keep the trade secrets of the Company in confidence shall survive the expiration of their terms. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with the Company is terminated.

In addition to any rights and remedies provided for in relevant laws and administrative regulations, the Company is entitled to adopt the following measures where a Director, Supervisor, manager or other senior management is in breach of his or her obligations to the Company:

- (i) to claim against such a Director, Supervisor, manager or other senior management for losses incurred by the Company as a result of his or her breach;
- (ii) to rescind any contract or transaction entered into between the Company and the Director, Supervisor or senior management and a third party where such third party has knowledge or should have had knowledge of the breach of duty;
- (iii) to account for the profits surrendered by the Director, Supervisor, manager or other senior management as a result of his or her breach;
- (iv) to recover any monies received by the Director, Supervisor, manager or other senior management which should have been received by the Company, including but without limitation to commissions;

- (v) to demand the return of the interest earned or which may have been earned on any monies by the Director, Supervisor, manager or other senior management which should have been received by the Company.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

The Company shall make amendments to these Articles of Association upon occurrence of any of the following events: (i) the Company Law or the relevant laws or regulations are amended and the provisions under these Articles of Association are contradictory to those under the amended laws or regulations; (ii) any change of the Company's conditions is contradictory to what is stated in these Articles of Association; (iii) the general meeting has decided to make amendments to these Articles of Association.

Amendments to the Articles of Association passed by resolutions at the general meeting, which require examination and approval by the competent authorities, shall be submitted to the competent authorities for approval. Any amendment to the Articles of Association that involves Mandatory Provisions shall be approved by company approval authorities authorized by the State Council and the securities regulatory authority under the State Council (if applicable) before taking effect. Where the amendment of the Articles of Association involves our registration, it shall be necessary to carry out the lawfully prescribed procedures for registration change.

Any amendment to the Articles of Association shall be subject to announcement if so required by the laws and regulations and shall be complied with the requirement of Hong Kong Listing Rules.

VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

In addition to holders of other class shares, holders of domestic shares and overseas listed foreign shares are deemed to be shareholders of different classes.

The Company may not vary or abrogate rights attached to any class of shares unless approved by a special resolution of shareholders at a shareholders' general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances should be deemed to be change or abrogation of the Class Rights of a class:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of class having voting or equity rights or privileges equal or superior to those of the shares of such class;

- (ii) to effect an conversion of all or part of the shares of such class into shares of another class or to effect an conversion or create a right of conversion of all or part of the shares of another class into the shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion privileges, options, voting rights, transferor pre-emptive rights, or rights to acquire securities of the Company attached to shares of such class;
- (vi) to remove or reduce rights to receive payments payable by the Company in a particular currency attached to shares of such class;
- (vii) to create a new class of shares having voting or equity right or privileges equal or superior to those of the shares of such class;
- (viii) to restrict the transfer or ownership of the shares of such class or add to such restriction;
- (ix) to issue rights to subscribe for, or convert into, shares of such class or another class;
- (x) to increase the rights or privileges of shares of another class;
- (xi) to reorganize the Company where the proposed reorganization will result in different classes of shareholders bearing a disproportionate burden of such reorganization;
and
- (xii) to vary or abrogate provisions in the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at the shareholders' general meeting, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

The resolution of a class meeting shall be passed by votes representing more than two thirds of shareholders of that class with voting rights attending such class meeting.

When convening a class meeting, 45 days before the meeting is convened, the Company shall send a written notice to inform all registered holders of the class shares on matters to be deliberated at the meeting, as well as the date and venue of the meeting. Shareholders planning to attend the meeting shall send the Company a written reply concerning attendance at the meeting 20 days before the meeting. In the event that the number of shares with voting power represented by shareholders planning to attend the meeting accounts for more than one half of the total number of class shares with voting power at the meeting, the Company may convene a class meeting. If this number is not reached, the Company shall again inform the shareholders of the matters to be deliberated as well as the date and venue of the meeting within five days in the form of an announcement and the Company may convene a class meeting once the announcement is delivered.

The notice of the class meeting needs only to be sent to the shareholders who have the right to vote at the meeting.

Insofar as possible, any class meeting shall be held in accordance with the same procedures as those of the shareholders' general meeting, and any clause that relates to the procedures for convening the shareholders' general meeting in the Articles of Association shall apply to any class meeting.

Apart from the holders of other class shares, the holders of domestic shares and the holders of overseas listed foreign shares are considered as shareholders of different classes. The special procedures for voting by class shareholders shall not apply in the following circumstances:

- (i) where the Company issues, upon the approval by a special resolution of its shareholders in a general meeting, either separately or concurrently once every 12 months interval, not more than 20% of each of its existing issued domestic shares and overseas listed foreign shares;
- (ii) where the Company's plan to issue domestic shares and overseas listed Foreign Shares at the time of its establishment is carried out within 15 months from the date of approval of the Securities Authority of the State Council;
- (iii) where upon the approval from the securities authority of the State Council and other approval authorities (including but not limited to Securities and Futures Commission and Hong Kong Stock Exchange, if applicable), the domestic shares of the Company may be converted into foreign shares, and such shares may be listed and traded in an overseas stock exchange.

For the purposes of the Class Rights provisions of the Articles of Association, the meaning of “interested shareholder(s)” is:

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange in the same proportion, a “controlling shareholder” within the meaning of the Articles of Association;
- (ii) in the case of a repurchase of shares by an off-market contract, a holder of the shares to which the proposed contract relates; and
- (iii) in the case of a reorganization of the Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed reorganization or who has an interest in the proposed reorganization different from the interest of shareholders of that class.

RESOLUTIONS NEEDED TO BE ADOPTED BY MAJORITY VOTE

The resolutions of the shareholders’ meeting are categorized as ordinary resolutions and special resolutions.

An ordinary resolution can be adopted by a simple majority of the votes held by the shareholders (including proxies) attending the shareholders’ general meeting.

A special resolution can be adopted by a two-thirds majority of the votes held by the shareholders (including proxies) attending the shareholders’ general meeting with unanimous approval from the shareholders independently hold more than 20% shares of the Company.

VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The shareholders of the Company have the right to attend or appoint a proxy to attend and vote at the shareholders’ general meeting. When voting at the shareholders’ general meeting, the shareholder (or proxy) may exercise his or her voting rights in accordance with the number of shares with voting power held with each share representing one vote.

When voting at a general meeting, shareholders (including their proxies) who are entitled to two or more votes are not required to vote against or in favor with their total number of votes.

When the number of dissenting votes equals the number of supporting votes (upon show of hands or on a poll), the chairman of the meeting is entitled to one additional vote.

When a connected transaction is considered at a shareholders’ general meeting, the connected shareholders shall not vote, and the voting shares held by them shall not be counted in the total number of shares with voting rights; the announcement of any resolution made at the shareholders’ general meeting shall adequately disclose information relating to voting by nonconnected shareholders. If connected shareholders cannot abstain from voting due to special situation, such shareholders may vote in accordance with the normal procedures upon obtaining the approval of authority, while the Company shall make a detailed explanation in the announcement of the resolutions of shareholders’ general meeting.

Where any Shareholder is, under the listing rules of the place where overseas-listed foreign-invested shares are listed, required to abstain from voting on any particular matter being considered and approved, the votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted.

SHAREHOLDERS' GENERAL MEETINGS

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Annual general meetings shall be convened once a year within six months from the end of the previous financial year.

ACCOUNTING AND AUDITING

The preparation of financial reports

The Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and the requirements stipulated by the relevant authorities of the PRC.

The Board of Directors shall submit the financial reports of the Company, as required by the laws, administrative regulations or directives promulgated by local governments and competent authorities to be prepared by the Company, at every annual shareholders' meeting.

Apart from the Chinese accounting standards and regulations, the financial reports of the Company shall also conform to international accounting standards and the accounting standards of overseas areas where the shares are listed. In the event of any major discrepancy between the financial reports prepared in accordance with the two accounting standards, such difference must be provided in the notes to the financial reports. As to the distribution of after-tax profits of the Company in a fiscal year, the after-tax profits indicated on the two financial reports, whichever is lower, shall prevail.

The Company shall make its financial reports available for inspection by the shareholders 20 days before the annual shareholders' general meeting is convened.

Each Shareholder shall be entitled to have a copy of the financial reports referred to in this Chapter. Unless otherwise required by the Articles of Association, the Company shall send the aforesaid reports or Directors' Report along with the balance sheet (including each document to be appended to the balance sheet as required by applicable regulations) and the income statement or the statement of income and expenditure to each of the holders of overseas listed Foreign Shares by delivery or postage-paid mail or by the manner as permitted by the stock exchange of the listed shares of the Company at least 21 days before the annual shareholders' general meeting is convened and the recipient's address shall be the address as shown in the register of shareholders.

The Company's interim results or financial information published or disclosed by the Company shall at the same time be prepared in accordance with PRC accounting standards, regulations, international accounting standards as well as the accounting standards of the overseas area in which the shares are listed.

The Company shall publish two financial reports in each fiscal year, meaning that the interim reports shall be published within 60 days after the first six months of the fiscal year and the annual reports shall be published within 120 days after the expiration of the fiscal year.

Appointment of accountants

The Company shall engage an independent accounting firm, which has obtained "qualification of engagement in securities related businesses" to audit the Company's annual financial reports and accounting statements, verify the net asset, audit other financial reports of the Company and provide other relation consultation services, with one year term of appointment and subject to reappointment.

The shareholders may replace the accounting firm through an ordinary resolution at the shareholders' general meeting prior to the expiration of the term of any accounting firm notwithstanding the terms and conditions of the contract howsoever entered into between the Company and the accounting firm. Any right of the accounting firm to claim compensation against the Company for the termination of office shall not be affected by such termination.

Remuneration of the accounting firm and the manner in which the remuneration is determined shall be decided on by the shareholders at the shareholders' general meeting. The remuneration of the accounting firm appointed by the Board of Directors shall be confirmed by the Board of Directors.

The Company's appointment, removal or non-reappointment of an accounting firm shall be resolved by the shareholders at the general meeting and shall be filed with the securities regulatory agency of the State Council.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accounting firm which is not an incumbent firm to fill a casual vacancy in the office of the accountants firm; re-appointment of a retiring accounting firm which was appointed by the Board of Directors of the Company to fill a casual vacancy; or removal of the accounting firm before the expiration of its term of office, the following provisions shall apply:

- (i) A copy of the proposal shall be sent, before notice of meeting is given to the shareholders, to the accounting firm proposed to be appointed or proposing to leave its post or the accounting firm which has left its post in the relevant fiscal year. Leaving a post includes leaving a post by removal, resignation and retirement.

- (ii) If the accounting firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late): (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association. Such notice shall become effective from the date when it is being placed at the legal address of the Company or any later date stated in the notice.
- (iii) If the accounting firm's representations are not sent in accordance with the preceding subparagraph (2), the accounting firm may (in addition to its right to be heard) require that the representations be read out at the meeting.
- (iv) An accounting firm which is leaving its post shall be entitled to attend: (i) the shareholders' general meeting at which its term of office would otherwise have expired; (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders' general meeting convened on its resignation. In addition, it shall also be entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of the Company.

Prior to the removal or the non-renewal of the appointment of the accounting firm, notice of such removal or non-renewal shall be given to the accounting firm and such firm shall be entitled to make representation at the shareholders' general meeting. In the event that the accounting firm requests to resign, it shall declare to the shareholders' general meeting whether the Company is affected by any improprieties.

The accounting firm shall resign by sending a written resignation notice to the Company's legal address. The notice shall take effect on the date of delivery to that address or on the date specified in the notice, whichever is later. The notice shall include the following statements:

- (i) its resignation does not include any statement that should be disclosed to the shareholders or creditors of the Company; or
- (ii) any statement that should be disclosed.

Within 14 days of receipt of the notice mentioned above, the Company shall send the copy of the notice to related competent agencies. If the notice contained a statement as referred to in (ii) under paragraph 1 of this section, the Company shall deposit a copy of such statement in the Company for examination by the Shareholders. The Company shall also send a copy of such statement by postage prepaid mail to each Shareholder of overseas listed foreign shares at its registered address contained in the Shareholders' register.

In the event that the resignation notice of the accounting firm includes any statement that shall be explained, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations regarding the resignation.

NOTIFICATION AND AGENDA OF SHAREHOLDERS GENERAL MEETINGS

The shareholders' general meeting is the authorized organ of the Company that can perform duties and exercise powers in accordance with the law. In addition to the situation that the Company is in crisis or other special circumstances, the Company shall not enter into any contract with any person other than a Director, Supervisor, manager or other senior management personnel of the Company whereby the management and administration of the whole or any substantial part of any business of the Company is to be handed over to such a person without the prior approval of Shareholders in a general meeting.

The shareholders' general meeting shall be convened annually within six months after the end of last fiscal year. Under any of the following circumstances, the Company shall convene an extraordinary general meeting within two months after the date of the incident:

- (i) the number of Directors is less than the number specified in the Company Law or less than two thirds of the number required in the Articles of Association;
- (ii) the uncovered losses of the Company reach one-third of its total paid-in share capital;
- (iii) the shareholders with 10% or more voting power separately or jointly request to convene an extraordinary general meeting in writing;
- (iv) the Board of Directors considers it necessary;
- (v) the Supervisory Committee proposes convening an extraordinary meeting;
- (vi) any other circumstances stipulated in laws, administrative regulations, regulations of the competent authorities or the Articles of Association.

When convening a shareholders' general meeting, the Company shall send a written notice to inform all shareholders on the register of the matters to be deliberated and the date and venue of the meeting 45 days before it is convened. Shareholders planning to attend shall send to the Company a written reply to that effect 20 days before the meeting is held.

Meeting venue shall be set for shareholders' general meetings which shall be convened by way of on-site meetings. The Company will provide internet for the convenience of shareholders to attend the general meetings. Shareholders who attend the general meeting by the said means are deemed to be present at such meeting.

At the Company's shareholders' general meeting, the shareholders holding 5% or more shares with voting power are entitled to submit written extraordinary proposals to the Company. The Company shall include matters in the temporary proposal falling within the scope of the functions and powers of the shareholders' general meeting in the agenda of the meeting.

The Company shall calculate the number of shares with voting power represented by the shareholders planning to attend the shareholders' general meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of shares with voting power represented by the shareholders planning to attend reaches more than one half of our total number of shares with voting power, the Company may convene the shareholders' general meeting. If this number is not reached, the Company shall again inform the shareholders of the matters to be deliberated and the date and venue of the meeting within 5 days in the form of an announcement before the shareholders' general meeting may be convened.

Matters not specified in the notice shall not be decided at extraordinary general meetings.

The notice of the general meeting shall include the following contents:

- (i) being in written form;
- (ii) specifying the venue, date and time of the meeting;
- (iii) describing the matters and proposals to be discussed at the meeting;
- (iv) providing shareholders with all the information and explanations that are necessary for them to make sensible decisions on matters to be discussed. This, in principle, shall include (but not limited to) providing concrete terms and contracts (if any) of the proposed transaction under negotiation, and earnestly explaining the causes and consequences thereof when the Company proposes a merger, share repurchase, reorganization of share capital or other restructuring;
- (v) if any director, supervisor, manager or other senior management officer has a substantial stake in any of the matters to be discussed, the notice shall disclose the nature and extent of his/her stake in relevant matters; if the matters to be discussed affect such director, supervisor, manager or senior management officer in his/her capacity as a shareholder differently than other shareholders of the same class, the notice shall explain the difference;
- (vi) containing the full text of any special resolution proposed to be passed at the meeting;

- (vii) containing an explicit statement that shareholders entitled to attend and vote shall have the right to appoint one or more proxies to attend and vote on their behalf and that the proxy or proxies need not be a shareholder/shareholders;
- (viii) specifying the time and place for delivering the power of attorney for voting at the meeting;
- (ix) specifying the Record Date of which shareholders have the rights to attend the general meeting;
- (x) the names and the contact numbers of the contact persons.

The notice of the shareholders' general meeting shall be sent to shareholders (whether or not entitled to vote at the meeting) in person or by postage-paid mail, and each recipient's address shall be according to the address indicated on the register of shareholders. For holders of domestic shares, the notice of our shareholders' general meeting may be given in the form of an announcement.

This announcement shall be published in one or more newspapers designated by the securities governing authority of the State Council within a period of 45 to 50 days before the meeting is convened. Once the announcement is made, all holders of domestic shares shall be deemed to have received the notice of our shareholders' general meeting. In the event that the notice of the meeting is not sent to persons entitled to receive it due to accident or oversight, or such persons fail to receive notice of the meeting, the meeting and resolutions made at the meeting shall not be thereby affected.

Subject to the laws, administrative regulations, normative documents and the relevant listing rules of the securities regulatory authority where the Company's shares are listed and subject to the performance of the relevant procedures, the Company can issue the notice of the general meeting to the holders of overseas listed foreign shares by publication on the website of the Company or the websites designated by Hong Kong Stock Exchange or otherwise permitted by Hong Kong Listing Rules and the Articles of Association in lieu of distributing the relevant information to the holders of overseas listed foreign shares by hand or by postage prepaid mail.

The following matters shall be approved by the shareholders' general meeting through ordinary resolutions:

- (i) working report of the Board of Directors and the Supervisory Committee;
- (ii) plans of profits distribution and loss make-up schemes drafted by the Board of Directors;
- (iii) dismissal of the members of the Board of Directors and the members of the Supervisory Committee and their remuneration and payment methods;

- (iv) annual budget/final account report, balance sheet, income and other financial statements of the Company;
- (v) annual reports of the Company;
- (vi) other matters in addition to those approved by special resolution as required by laws, administrative regulations, listing rules of stock exchanges on which our shares are listed or the Articles of Association.

The following matters shall be approved by special resolution at the shareholders' general meeting:

- (i) the increase or reduction of registered capital and issue of any class of shares, warrants and other similar securities;
- (ii) issue of bonds of the Company;
- (iii) division, merger, dissolution and liquidation of the Company and the change of form of the Company;
- (iv) amendment of the Articles of Association;
- (v) matters relating to the purchase, sale of material assets or guarantee made by the Company with an amount exceeding 30% of the latest audited total assets of the Company;
- (vi) adjustment of profit distribution policy;
- (vii) share option incentive plan;
- (viii) other matters as required by the laws, administrative regulations or the Articles of Association, and as approved by ordinary resolution of the shareholders' general meeting which are believed could materially affect the Company and need to be approved by special resolution.

SHARE TRANSFERS

Subject to the approval of the securities regulatory authority of the State Council, holders of our domestic shares may transfer their Shares to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

Shares of the Company held by the promoter are not transferable within one year commencing from the date of establishment of the Company. Shares of the Company that are already in issue prior to its public offering are not transferable within one year commencing from the date on which our shares were listed and traded on a stock exchange.

The Directors, Supervisors and senior management of the Company shall report to the Company the number of shares held by them in the Company and the subsequent changes in their shareholdings. The number of shares which a Director, Supervisor or senior management may transfer every year during his or her term of office shall not exceed 25% of the total number of our shares in his or her possession; and shares of the Company in his or her possession are not transferable within one year commencing from the date on which our shares were listed and traded on a stock exchange. Such personnel shall not transfer our shares in their possession within six months upon termination of their employment with the Company. Such transfer restriction involving H shares shall be in compliance with the requirements of Hong Kong Listing Rules.

Any gains from the sale of shares of the Company by any of the Company's Director, Supervisor, senior management or shareholders holding 5% or more of the shares in the Company within six months after purchasing such shares, or thereafter any gains from repurchasing such shares in the Company within six months after the sale thereof, shall be vested in by the Company. The Board of Directors of the Company shall forfeit such gains from the abovementioned parties. However, where the securities company, as the sole underwriter, purchases all the unsold shares and therefore holds more than 5% of the shares in the Company, sale of such shares is exempted from the six-month restriction.

If the Board of Directors of the Company fails to comply with the provision set forth in the preceding paragraph, a shareholder shall have the right to require the Board to act within 30 days. If the Board fails to do so within the said time limit, a shareholder shall have the right to initiate proceedings in a court directly in his own name in the interest of the Company.

Unless otherwise stipulated by laws, administrative regulations, the Articles of Association and relevant requirement of the regulatory authorities for securities in the listing place of the shares of the Company, our shares shall be freely transferable pursuant to the laws and are not subject to any lien.

Alteration or rectification of any part of the register of members shall be made in accordance with the laws of the place where that part of the register of shareholders is maintained.

No changes shall be made in the registration in the register of shareholders as a result of the transfer of shares within 30 days prior to a shareholders' general meeting or within five days prior to the base date on which the Company decides to distribute dividends.

RIGHTS OF THE COMPANY TO REPURCHASE ITS OWN SHARES

According to the provisions of the Articles of Association, the Company may, in the following circumstances, and subject to the approval of the relevant governing authority of the PRC, buy back its shares pursuant to laws, administrative regulations, departmental rules and the Articles of Association:

- (i) decreasing the registered capital of the Company;
- (ii) merging with other companies holding shares of the Company;
- (iii) awarding shares to employees of the Company;
- (iv) shareholders objecting to resolutions of the general meeting concerning merger or division of the Company requesting the Company to buy back their shares;
- (v) further acquisition of the shares of the Company by the shareholder(s) severally or jointly holding 10% or above shares of the Company.

In the event of (v), subject to the laws, regulations, normative documents and the relevant regulatory rules and requirement of the securities regulatory authority where the Company's shares are listed and the Articles of Association, the Company may buy back the shares of the Company immediately and transfer such shares to particular parties without approval or mandate and shall perform the obligation of information disclosure.

The Company shall not trade its shares unless in the aforesaid circumstances.

The Company may repurchase shares as approved by relevant authorities in any of the following means:

- (i) making a general offer of repurchase to all shareholders at the same proportion;
- (ii) repurchasing shares through public dealing on a stock exchange;
- (iii) repurchasing shares by an off-market agreement;
- (iv) other means approved by laws, administrative regulations, relevant competent authorities and the securities regulatory authority where the Company's shares are listed.

Where the Company repurchases its own shares by an off-market agreement, it shall obtain prior approval at the shareholders' general meeting pursuant to the Articles of Association. Likewise, subject to the prior approval of the shareholders' general meeting, the Company may dissolve or change the contract signed in the aforesaid manner or waive any of its rights in the contract.

The said share repurchase contract includes, but is not limited to, an agreement that consents to undertake the obligation to repurchase the shares and obtain the rights to repurchase them.

The Company shall not transfer any contract that repurchases the shares or any rights conferred under the contract. Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered shares capital. The amount of the Company's registered Shares capital shall be reduced by the par value of those cancelled Shares.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- (i) where the Company repurchases Shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company and proceeds of a fresh issue of Shares made for that purpose;
- (ii) where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (a) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; or (b) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company and the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceed of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the old Shares repurchased nor the amount of the Company's share premium account at the time of the repurchase (or of the capital reserve account) (including the premiums on the fresh issue);
- (iii) payment by the Company in consideration of the following shall be made out of the Company's distributable profits:
 - (a) acquisition of rights to repurchase Shares of the Company;

- (b) variation of any contract to repurchase Shares of the Company;
- (c) release of any of the Company's obligations under any contract to repurchase Shares of the Company;
- (iv) after the Company's registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value portion of the Shares repurchased shall be recorded to the Company's share premium account (or the capital reserve account).

Power of any subsidiary of the Company to own our shares

There are no provisions stipulated in the Articles of Association that restrict the subsidiaries of the Company from owning our shares.

DIVIDEND AND PROFIT DISTRIBUTION

The Company may distribute dividends by way of cash or shares.

The shares of the Company held by the Company shall not be subject to profit distribution.

The receiving agents appointed by the Company shall comply with related provisions of the laws or the securities exchange where the shares are listed. The receiving agent for holders of overseas listed foreign shares listed on the Hong Kong Stock Exchange shall be a trust company registered under the Trustee Ordinance.

SHAREHOLDER PROXIES

Any shareholder who is entitled to attend and vote at our shareholders' general meeting has the right to appoint one or more persons (who may not necessarily be shareholders) as his or her shareholder proxy to attend and vote at the meeting in his or her place. The shareholder proxy so appointed shall be entitled to exercise the following rights in accordance with the authorization of that shareholder:

- (i) the shareholder's right to speak at the shareholders' general meeting;
- (ii) the right to demand, whether on his or her own or together with others, a poll; and
- (iii) unless otherwise provided for in relevant laws, administrative regulations and relevant requirement of the securities regulatory authority where the Company's shares are listed, exercise the right to vote by show of hand or on a poll; however, if one shareholder is represented by more than one shareholder proxy, the shareholder proxy must vote on a poll.

The shareholder proxy appointment shall be in writing and shall be signed by the appointer or a person duly authorized in writing. Where the appointer is a legal person, the stamp of the legal person shall be affixed, or signed by the Director or a duly authorized agent.

If the shareholder is an authorized clearing house as defined in relevant rules of Hong Kong from time to time or its agent, such a shareholder is entitled to appoint one or more persons it deems suitable to act as its proxy in the shareholders' general meeting or shareholders class meeting. If two or more persons are appointed as proxies, the proxy forms shall clearly state the number and the class of shares represented by each of the proxies. The proxy forms shall be signed by the respective proxies appointed by the authorized clearing house. The proxies so appointed may represent the authorized clearing house (or its agent) in exercising its rights at any meeting (without being required to present share certificate, certified statement of proxy and/or further evidence of due authorization) as if that proxy is an individual shareholder of the Company.

The power of attorney must be kept at the domicile or other location designated in the notice convening the meeting no later than 24 hours before the meeting at which the power of attorney is put to vote is convened or 24 hours before the designated voting time. If the power of attorney is signed by another person authorized by the appointer, the power of attorney or other instrument must be verified by a notary. The power of attorney or other instrument verified by the notary must be kept together with the power of attorney appointing the entrusted representative at our residential address or other location designated at the notice convening the meeting.

Where the appointer is a legal person, its legal representative or any person authorized by resolutions of its Board of Directors or other governing body attends our shareholders' general meeting as a representative.

The Company shall have the right to require any proxy who attends the shareholders' general meeting on behalf of the shareholder(s) to produce his or her identity certificate.

Any form sent by the Board of directors to the Shareholder for appointing a shareholder proxy shall allow the Shareholder, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on each item on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the Shareholder does not provide instructions.

The votes of the shareholder proxy given pursuant to the terms of an instrument of proxy shall remain valid notwithstanding the previous death, loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that the Company does not receive written notice concerning such matters before the related meeting is convened.

Calls on shares and forfeiture of shares

Any amount paid up in advance of calls on any share may carry interest but shall not entitle the relevant shareholder to participate in respect thereof in a dividend subsequently declared.

Subject to compliance with the relevant laws of the PRC, the Company may exercise its right to confiscate the dividends which are not claimed by anyone but such right can only be exercised after the expiry of relevant time frame.

The Company has the power to cease sending dividend warrants by post to a given holder of overseas listed foreign shares, but may exercise such power only if such warrants have been left uncashed on two consecutive occasions. However, the Company may exercise such power after the first occasion on which such a warrant is returned undelivered.

The Company has the power to sell by a method deemed fit by the Board the shares of a holder of overseas listed foreign shares who is untraceable, provided that it complies with the following conditions:

- (i) the Company has distributed dividends on such foreign shares for at least three times in 12 years, which dividends are not claimed by anybody during the period;
- (ii) upon expiration of the 12-year period, the Company makes an announcement of its intention to sell such shares in one or more newspapers, and notify the local securities regulatory authority at the place where the stock of the Company is listed. The Company shall appoint collection agents for holders of overseas listed foreign shares. The collection agents shall, on behalf of the related shareholders, collect dividends and other payables distributed by the Company for the overseas listed foreign shares.

Shareholders' rights (including inspection of register of members)

The holders of ordinary shares of the Company shall enjoy the following rights:

- (i) the right to receive dividends and other distributions in proportion to their shareholdings;
- (ii) the right to petition, convene, preside, attend or appoint a shareholder proxy to attend the shareholders' general meetings in accordance with laws, and the right to exercise the voting rights;
- (iii) the right to supervise the Company's business operations and present proposals or to raise queries;

- (iv) the right to transfer the shares he or she holds in accordance with the laws, administrative regulations and the provisions hereof;
- (v) the right to receive information as provided in the Articles of Association, including:
 - (a) a copy of the Articles of Association, subject to payment of costs;
 - (b) inspection and copy of, subject to payment of a reasonable fee: (a) all parts of the register of members; (b) personal particulars of each of the Company's Directors, Supervisors and senior management, including: current and former name and by name; main address (domicile); nationality; full-time and all other part-time jobs and titles; and identity certificate and its number;
 - (c) status of share capital of the Company;
 - (d) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the last accounting year and the aggregate amount paid by the Company for this purpose;
 - (e) minutes of shareholders' general meetings;
- (vi) in the event of the termination and liquidation of the Company, the right to participate in the distribution of remaining assets of the Company in accordance with the number of shares held;
- (vii) for shareholders who disagree with the resolution in relation to a merger or division passed at a shareholders' general meeting, the right to request the Company to repurchase their shares; and
- (viii) other rights conferred by laws, administrative regulations and the Articles of Association.

Where any person directly or indirectly having rights and interests fail to disclose such rights and interests, the Company shall not exercise its rights to freeze or otherwise harm any right of such person attached to the shares solely for this reason.

QUORUM FOR SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

The Company shall, based on the written replies received 20 days prior to the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting accounts for more than half of the Company's total voting shares, the Company may convene a general meeting; otherwise, the

Company shall make an announcement within 5 days, notifying the shareholders of matters to be considered at as well as the date and venue of the meeting. The Company may convene the meeting once an announcement has been so made.

For convening of a class meeting and its required quorum, see “— VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES”.

RIGHTS OF NON-CONTROLLING SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

Apart from the obligations required in laws, administrative regulations or the listing rules of the stock exchange on which the shares are listed, the Controlling Shareholder shall not make any decision that is detrimental to the interest of all or part of the shareholders on the following issues by exercising his or her shareholder voting rights:

- (i) releasing the Directors and Supervisors from the duty of acting honestly in the best interest of the Company;
- (ii) permitting the Directors and Supervisors (for their own or others' interests) to deprive the Company of assets in any form, including, but not limited to, any opportunity that is beneficial to the Company;
- (iii) permitting the Directors and Supervisors (for their own or others' interests) to deprive the shareholders of their personal rights and interests, including, but not limited to, any dividend distribution or voting right, but excluding the restructuring of the Company approved at the shareholders' general meeting pursuant to the Articles of Association.

LIQUIDATION PROCEDURES

Under any of the following circumstances, the Company shall be lawfully dissolved and liquidated:

- (i) expiry of the term of business provided in the Articles or other reasons for dissolution as specified in these Articles of Association;
- (ii) the shareholders' general meeting adopts a resolution to dissolve the Company;
- (iii) the Company needs to be dissolved for the purpose of merger or division;
- (iv) the business license is revoked, or the Company is ordered to close or be eliminated as a result of the breach of laws and administrative regulations;

- (v) where the Company encounters significant difficulties in business and management, continuous survival may be significantly detrimental to the interests of the shareholders, and the difficulties may not be overcome through other means, shareholders who hold more than 10% of the shares carrying voting rights may request the court to dissolve the Company;
- (vi) the Company is declared legally bankrupt as a result of failure to pay debts as they fall due.

Where the Company is dissolved pursuant to (i) or (ii) above, it shall establish a liquidation committee within 15 days after the dissolution circumstance arises. The members of the liquidation committee shall be determined in general meeting by way of ordinary resolution.

Where the Company is dissolved pursuant to (iv) above, a liquidation committee shall be formed by shareholders, the relevant authorities and the relevant professionals as organized by the relevant competent authority, for carrying out the liquidation.

Where the Company is dissolved pursuant to (vi) above, the liquidation shall be proceeded in accordance with the applicable bankruptcy law.

Where the Board resolves to liquidate the Company for any reason other than bankruptcy, the Board shall include a statement in its notice convening a general meeting to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company shall be able to pay its debts in full within twelve months from the commencement of the liquidation.

Upon passing of the resolution at general meeting for the liquidation of the Company, all functions and powers of the Board shall immediately cease.

The liquidation committee shall act in accordance with the instructions of the general meeting and make a report at least once every year to the general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation, and present a final report to the general meeting on completion of the liquidation.

OTHER PROVISIONS MATERIAL TO THE COMPANY AND OUR SHAREHOLDERS

General provisions

The Company is a permanently existing joint stock limited liability company.

As of the effective date of these Articles of Association, these Articles of Association shall be a legally binding document which regulates the Company's organization and acts, governs the rights and obligations between the Company and the shareholders, and amongst the shareholders themselves, and shall constitute a legally binding document governing the

Company, its shareholders, directors, supervisors and senior management officers. Pursuant to these Articles of Association, a shareholder may take action against the other shareholders, and the shareholders may take action against the Company's directors, supervisors, managers and other senior management officers. The shareholders may take action against the Company. The Company may take action against its shareholders.

The Company may invest in other bodies including companies with limited liability and joint stock companies, with the liability of the Company limited to the extent of the subscribed capital contribution or subscribed shares. Unless otherwise stipulated by the law, the Company shall not bear joint and several liabilities for the debts of the enterprise in which the company invests.

Shares and its transfer

Subject to approval of the shareholders at general meeting, the Company may increase its capital by way of:

- (i) public offering of shares;
- (ii) non-public offering of shares;
- (iii) offer of bonus shares to existing shareholders;
- (iv) rights issue of shares to existing shareholders;
- (v) other means stipulated by laws, administrative regulations or approved by CSRC.

Upon approval to increase the Company's registered capital by issuing new shares according to the provisions of the Articles of Association, the matter shall be dealt with in accordance with the procedures of related laws, administrative regulations and the requirement of the local securities regulatory authority at the place where the stock is listed.

When the Company reduces its registered capital, it shall prepare a balance sheet and a list of assets. The Company shall notify creditors of its resolution on reduction in registered capital within 10 days after it adopts such resolution, and announce the same on Shanghai Securities News, China Securities Journal and Securities Times for three times within 30 days. A creditor shall have the right to request the Company to repay debts or provide relevant guarantee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The registered capital of the Company after reduction shall be no less than the statutory minimum limit.

Subject to the approval from securities regulatory authority under the State Council, shareholders of domestic shares of the Company may transfer their shares to foreign investors and such transferred shares may be listed and traded overseas. The shares transferred shall comply with the regulatory procedures, provisions and requirements of the overseas securities market when listed and traded on an overseas stock exchange.

Shareholders

The Shareholders are persons lawfully holding the shares and whose names (titles) are already listed in the register of shareholders.

A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him or her; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

Holders of the ordinary shares of the Company shall assume the following obligations:

- (i) to observe the law, administrative regulations and the Articles of Association;
- (ii) to pay subscription money according to the number of shares subscribed and the method of subscription;
- (iii) to dispose his or her shares only under circumstances permitted by laws and regulations;
- (iv) not to abuse their shareholders' rights to prejudice the interests of the Company or other shareholders; and not to abuse the independent legal entity status of the Company and the limited liability of a shareholder to prejudice of the interests of creditors of the Company. Any Shareholder of the Company who abuses any of the shareholders' rights to the extent of causing losses to the Company or other Shareholders shall be held liable for compensation of the damages according to laws. Any shareholder of the Company who abuses the independent legal entity status of the Company and the limited liability of a shareholder, evades debt, to the extent of severely jeopardizing the interests of creditor(s) of the Company shall be held liable for the joint liability to the relevant liabilities of the Company;
- (v) in the event of further acquisition of the shares of the Company by the shareholder(s) severally or jointly holding 10% or above shares of the Company, if it results in the voluntary or involuntary dismissal of the mid-level management or above, such shareholder shall pay an one-off extra compensation for removal to the dismissal personnel unless such personnel waive such right in written;
- (vi) to be bound by other obligations as stipulated by laws, administrative regulations and the Articles of Association.

Save for the conditions agreed by a subscriber for shares during subscription, shareholders shall not be liable for any subsequent contribution of additional share capital.

The Board of Directors

The Board of Directors is responsible to the shareholders' general meeting and exercises the following powers:

- (i) to convene the shareholders' general meeting and report on work to the shareholders' general meeting;
- (ii) to implement the resolutions of the shareholders' general meeting;
- (iii) to determine our business plans and investment project;
- (iv) to formulate our annual financial budget and final account;
- (v) to formulate our profit distribution and loss offset plans;
- (vi) to formulate proposals for the Company in respect of increase or reduction of registered capital, issue of bonds or other securities and the listing thereof;
- (vii) to formulate plans for material acquisitions, purchase of shares of the Company, merger, division, dissolution or transformation of the Company;
- (viii) to determine, within the authority granted by the general meeting, such matters as external investment, acquisition and disposal of assets, asset mortgage, external guarantee, consigned financial management, connected transactions, etc.;
- (ix) to decide on the establishment of internal management organizations of the Company;
- (x) to appoint or dismiss the manager, secretary to the Board and authorized representative for securities affair to the Board of the Company; to appoint or dismiss senior management officers including deputy managers and the person in charge of finance of the Company in accordance with the nominations by the manager, and to determine their remunerations, rewards and penalties;
- (xi) to set up the basic management system of the Company;
- (xii) to formulate the proposals for any amendment to the Articles of Association;
- (xiii) to manage information disclosure of the Company;

- (xiv) to propose to the general meeting the appointment or replacement of the accounting firms which provide audit services to the Company;
- (xv) to listen to work reports of the manager of the Company and review his/her work;
- (xvi) to exercise other functions and powers as stipulated by laws, administrative regulations, department rules or the Articles of Association.

The Board of Directors shall be convened at least 4 regular meetings a year (roughly once every quarter) and be called by the chairman of the Board of Directors, and a written notice shall be sent to all Directors and Supervisors at least 14 days before the meeting is convened.

Meetings of the Board of Directors shall be attended by more than one-half of the Directors before the Board of Directors meeting can be convened. Each director has one vote. When the number of affirmative votes equals the number of dissenting votes, the chairman of the Board of Directors is entitled to one additional vote.

In the event that a Director is connected to companies associated with matters to be resolved at the Board meeting, such Director shall not exercise his or her voting rights on such resolution, nor shall he or she votes on behalf of other Directors. The Board meeting may be convened with the presence of more than half of the uninterested Directors. Resolutions shall be approved by more than half of the uninterested Directors at the Board meeting. Where there are less than three uninterested Directors present at the Board meeting, such matters shall be submitted to the shareholders' general meeting for consideration.

Independent non-executive Directors

The company shall have a Board of Directors. The Board of Directors shall consist of 11 Directors, among which 4 shall be independent non-executive Directors.

Secretary to the Board

The secretary to the Board shall have the requisite professional knowledge and experience and shall be appointed by the Board.

Supervisory Committee

The Directors, managers and other senior management shall not act concurrently as Supervisors. The Supervisory Committee consists of three Supervisors, among which one shall be the chairman and vice chairman may be appointed. The Supervisors serve three-year terms and may be re-elected. The chairman of the Supervisory Committee shall be elected and dismissed by more than two-thirds vote of the members of the Supervisory Committee, and the vice chairman shall be elected by more than one half vote of the members of the Supervisory Committee.

Resolutions of the Supervisory Committee shall be approved by more than two-third of the Supervisors.

The supervisory committee of the Company shall be made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, among which the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory committee shall be democratically elected and dismissed by the company's staff at the staff representative assembly, general staff meeting or otherwise.

The Supervisory Committee shall be accountable to the general meeting and exercise the following functions and powers:

- (i) to review the periodic reports of the Company prepared by the Board and express its written opinion;
- (ii) to check the financial condition of the Company;
- (iii) to monitor the performance of duties by directors, managers and other senior management officers and propose dismissal of directors, managers and other senior management officers who have violated laws, administrative regulations or these Articles of Association;
- (iv) to require the directors, managers and other senior management to take corrective measures when their actions are detrimental to our interests;
- (v) to verify the financial information, such as the financial reports, business reports and profit distribution proposal to be submitted by the Board to the shareholders' general meeting and, should any queries arise, to authorize, in the name of the Company, a re-examination by the certified public accountants and practicing auditors;
- (vi) to propose the convening of extraordinary general meetings;
- (vii) to submit proposals at the shareholders' general meetings;
- (viii) to communicate with or initiate legal proceedings against directors on behalf of the Company according to the relevant provisions of the Company Law;
- (ix) to identify and investigate into any abnormalities in operation of the Company; and where necessary, to engage professional institutions including accounting firms and law firms to provide assistance in their work, and the expenses so incurred shall be borne by the Company;
- (x) to exercise other powers and duties stipulated in the Articles of Association.

The Supervisors shall attend the board meeting.

The supervisors shall abide by the laws, administrative rules and these Articles of Association and perform the obligations faithfully and diligently. They shall not abuse their authority of office to obtain bribes or other illegal income and not to misappropriate the property of the Company.

General Manager

The Company includes one general manager and certain deputy managers, appointed or dismissed by the Board of Directors.

The manager is responsible to the Board of Directors and exercises the following powers:

- (i) to manage the daily business operations of the Company, organize and implement the Board's resolutions, and report to the Board;
- (ii) to organize and implement the Company's annual operational plan and investment plan;
- (iii) to prepare the plan for the establishment of internal management of the Company;
- (iv) to prepare the plan of the basic management system of the Company;
- (v) to formulate the Company's basic rules;
- (vi) to propose to the Board to appoint or remove the deputy manager and chief financial officer of the Company;
- (vii) to appoint or remove executives other than those appointed or removed by the Board;
- (viii) to review and determine the salary, benefit, incentive and punishment package of the Company's employees, and to decide on the engagement or dismissal of the Company's employees;
- (ix) the manager is entitled to make decision on single external investment project which worth no more than 20% of the net asset of the Company and bank loan with single amount of no more than RMB100 million under the Trustee Ordinance, subject to the decision making procedures formulated by the Company and excluding external investment projects which required the approval of shareholders on general meetings pursuant to the laws, regulations, normative documents and relevant requirement of the securities regulatory authority and stock exchange where the Company's shares are listed;

- (x) other duties authorized by the Articles of Association and the board of directors.

The manager of the Company shall attend the Board meeting, manager who is not a Director does not have voting rights at the Board meeting.

Chairman

The vice chairman of the Company shall assist the Chairman in work. Where the Chairman is unable to or does not perform his duties, the vice chairman shall discharge such duties (if the Company has two or more vice chairmen, then the duties shall be performed by the vice chairman elected by more than one half of the Directors). Where the vice chairman is unable to or does not perform his/her duties, more than one half of the Directors shall elect a Director to discharge such duties.

Disputes resolution

The Company shall follow the following rules for settlement of disputes:

- (i) All disputes and claims between shareholders of overseas listed foreign shares and the Company, between shareholders of overseas listed foreign shares and the Company's directors, supervisors, managers and other senior management officers, or between shareholders of overseas listed foreign shares and shareholders of domestic shares arising from these Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other applicable laws and regulations concerning the affairs of the Company shall be referred by the relevant parties to arbitration.

Where the aforesaid disputes or claims is referred to arbitration, such disputes or claims shall be referred in their entirety, and all persons (being the Company, the Company's shareholders, Directors, Supervisors, managers or other senior management) that have a cause of action based on the same grounds or the persons whose participation is necessary for the resolution of such disputes or claims, shall comply with the arbitration.

Disputes with respect to the definition of shareholders and disputes concerning the register of shareholders need not be resolved by arbitration.

- (ii) A claimant may elect arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules. Once a claimant submits a dispute or claim to arbitration, the other party must arbitrate at the arbitral body elected by the claimant. If a claimant elects arbitration at HKIAC, any party to the dispute or claim may request Shenzhen as the seat of arbitration in accordance with the Securities Arbitration Rules of the HKIAC.

- (iii) If any dispute or claim of rights arising for the reasons stated in paragraph (i) above is referred to arbitration, the laws of the PRC shall apply, save as otherwise provided in laws and administrative regulations.

- (iv) The award of an arbitration body shall be final and binding on all parties.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was established in the PRC as a joint stock company with limited liability on January 1, 1992. The Company changed its name from Shanghai Pudong Dazhong Taxi Co., Ltd.* (上海浦東大眾出租汽車股份有限公司) to Shanghai Dazhong Enterprises of Science and Technology Ltd.* (上海大眾科技創業(集團)股份有限公司) on June 18, 1999 and further changed its name to Shanghai Dazhong Public Utilities (Group) Co., Ltd.* (上海大眾公用事業(集團)股份有限公司) on May 21, 2003.

Our Company has established its principal place of business in Hong Kong at 3011, Tower 6, the Gateway, 1 Canton Road, Tsim Sha Tsui, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 30, 2016. In connection with such registration, our Company has appointed Mr. Wong Yat Tung (黃日東) as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was established in the PRC, its operation, corporate structure and the Articles of Association are subject to the laws and regulations of the PRC. A summary of certain relevant aspects of the laws and regulations of the PRC and various provisions of our Company's Articles is set out in Appendix IV and V to this prospectus.

2. Changes in registered capital of our Company

- (1) On January 1, 1992, our Company divided its 1.4 million shares with a par value of RMB10.00 each into shares with a par value of RMB1.00 each. Upon completion of the division, the issued shares our Company was 14.0 million with a par value of RMB1.00 each.
- (2) The Company issued RMB14 million A Shares which have been listed on the Shanghai Stock Exchange on March 4, 1993.
- (3) On June 18, 1993, we allotted another RMB13 million A Shares to our Shareholders (except our promoter Bank of Communications, Shanghai Pudong Branch* (交通銀行上海浦東分行)). As a result, our registered capital was increased to RMB27 million.
- (4) On March 18, 1994, we adopted a bonus issue of 18,900,000 shares to our Shareholders and an allotment of 13,770,000 shares to our Shareholders. As a result, our registered capital was increased to RMB59,670,000.
- (5) On June 14, 1995, we allotted 17,901,000 shares to our Shareholders. As a result, our registered capital was increased to RMB77,571,000.

- (6) On September 1, 1995, we adopted a bonus issue of 5,967,000 shares to our Shareholders. As a result, our registered capital was increased to RMB83,538,000.
- (7) On January 30, 1997, we adopted a bonus issue of 20,884,500 shares to our Shareholders. In addition, we completed an allotment of 25,061,400 shares to our Shareholders. As a result, our registered capital was increased to RMB129,483,900.
- (8) On May 22, 1997, we adopted a bonus issue of 15,382,700 shares to our Shareholders and converted RMB114,101,200 from our capital reserve to our share capital. As a result, our registered capital was increased to RMB258,967,800.
- (9) On May 12, 1998, we adopted a bonus issue of 81,574,857 shares to our Shareholders and converted RMB47,909,043 from our capital reserve to our share capital. As a result, our registered capital was increased to RMB388,451,700.
- (10) On May 14, 1998, we allotted 71,727,840 shares to our Shareholders. As a result, our registered capital was increased to RMB460,179,540.
- (11) On December 15, 1999, we allotted 16 million shares to the then shareholders of Wuxi Dazhong Taxi Co., Ltd. (無錫大眾出租汽車有限公司). As a result, our registered capital was increased to RMB476,179,540.
- (12) On October 10, 2002, we allotted 70 million shares to our Shareholders. After a rounding calculation of our historical share allotments, 2,216 shares were added as well. As a result, our registered capital was increased to RMB546,181,666.
- (13) On October 15, 2005, we converted RMB163,854,500 from our capital reserve to our share capital. As a result, our registered capital was increased to RMB710,036,166.
- (14) On April 3, 2006, we converted RMB213,010,850 from our capital reserve to our share capital. As a result, our registered capital was increased to RMB923,047,016.
- (15) On June 5, 2007, we converted RMB323,066,456 from our capital reserve to our share capital. As a result, our registered capital was increased to RMB1,246,113,472.
- (16) On April 28, 2008, we converted RMB249,222,694 from our capital reserve to our share capital. As a result, our registered capital was increased to RMB1,495,336,166.
- (17) On June 17, 2010, we adopted a bonus issue of 149,533,617 shares to our Shareholders. As a result, our registered capital was increased to RMB1,644,869,783.
- (18) On May 12, 2015, we adopted a bonus issue of 822,434,892 shares to our Shareholders. As a result, our registered capital was increased to RMB2,467,304,675.

Save as aforesaid, up to the Latest Practicable Date, there had been no alteration in the share capital of our Company since incorporation.

3. Shareholders resolutions passed on July 28, 2015

Pursuant to the general meeting held on July 28, 2015, our holders of A Shares resolved that, for a period of 18 months from July 28, 2015:

- (a) the issue by our Company of the H Shares of nominal value of RMB1.00 each and such H Shares be listed on the Hong Kong Stock Exchange;
- (b) the number of H Shares to be issued shall not be more than 15% of the total issued share capital of our Company as enlarged by the Global Offering, and the grant to the Joint Representatives the Over-allotment Option of not more than 15% of the number of H Shares issued pursuant to the Global Offering and the size of the global offering can be adjusted with approval from the Board or representative authorized by the Board;
- (c) subject to the completion of the Global Offering, the conditional adoption of the Articles of Association, which shall become effective on the Listing Date and the Board and the persons authorized by the Board be authorized to amend the Articles of Association in accordance with the requirements by the relevant regulatory authorities in accordance with the relevant laws and regulations; and
- (d) the Board and the persons authorized by the Board be authorized to deal with all matters relating to, among other things, all matters relating to the Global Offering, the issue and listing of the H Shares.

4. Our subsidiaries

Our subsidiaries are set out in Note 1 of the Accountant's Report, the text of which is set out in Appendix IA to this prospectus.

5. Changes in the share capital of our principal subsidiaries

Save as disclosed below, there has been no alteration in the share capital of our subsidiaries within the two years preceding the date of this prospectus:

(1) *Shanghai Dazhong Asset Management*

The registered capital of Shanghai Dazhong Asset Management was increased from US\$30 million to RMB500 million on December 22, 2014.

(2) Qionghai Chunsheng Travel

The registered capital of Qionghai Chunsheng Travel was increased from RMB3 million to RMB5.5 million on December 1, 2014.

(3) Nantong Development Zone Gas

The registered capital of Nantong Development Zone Gas was increased from RMB20 million to RMB50 million on August 19, 2014.

(4) Shanghai Dazhong Gas Investment

The registered capital of Shanghai Dazhong Gas Investment was decreased from RMB125.0 million to RMB107.1 million on November 17, 2015.

(5) Dazhong Hong Kong International

The total issued share capital of Dazhong Hong Kong International was increased from US\$2,000,000 to US\$10,500,000 on March 6, 2015.

6. Non-wholly Owned Principal Subsidiaries within our Group

Our Group includes some non-wholly owned principal subsidiaries. Information on these subsidiaries is set out below.

(1) Shanghai Dazhong Gas

Parties and equity interest:	<ul style="list-style-type: none"> • our Company (50%) • Shanghai Gas Group (our Shareholder) (50%)
Term:	50 years since registration with competent local branch of state administration for industry and commerce
Management of business and operations:	The board is composed of six directors including three directors appointed by our Company and three directors appointed by Shanghai Gas Group.

(2) Minhang Dazhong Micro-credit

- Parties and equity interest:
- our Company (50%)
 - Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司) (20%)
 - Shanghai Automobile Air Conditioning Co. Ltd.* (上海加冷松芝汽車空調股份有限公司) (10%)
 - Shanghai Tofflon Science & Technology Co., Ltd.* (上海東富龍科技股份有限公司) (an Independent Third Party) (10%)
 - Shanghai Gumei Asset Management Co., Ltd.* (上海古美資產經營管理有限公司) (an Independent Third Party) (10%)

Restrictions on sale,
assignment or transfer of
interest:

Equity interests held by our Company shall not be transferred or pledged within three years after registration of Minhang Dazhong Micro-credit with competent authority. Equity interests held by other shareholders shall not be transferred or pledged within one year after registration of Minhang Dazhong Micro-credit with competent authority.

(3) Shanghai Dazhong Financial Leasing

Parties and equity interest:	<ul style="list-style-type: none"> • our Company (40%) • FCEEL (our subsidiary) (25%) • Dazhong Transportation Group (20%) • Shanghai Dazhong Business Management (our Shareholder) (10%) • Shanghai Chengguang Business Consultation Co., Ltd.* (上海誠光商務信息諮詢有限公司) (an Independent Third Party) (5%)
Term:	30 years since the issuance date of business license and extension of term with unanimous consent of all shareholders
Restrictions on sale, assignment or transfer of interest:	Approval by other shareholders required
Management of business and operations:	The board is composed of five directors including three directors appointed by our Company, one director appointed by FCEEL (our subsidiary) and one director appointed by Dazhong Transportation Group.

(4) Nantong Dazhong Gas

Parties and equity interest:	<ul style="list-style-type: none"> • Shanghai Dazhong Gas Investment (our subsidiary) (50%) • Nantong Gas General* (南通市燃氣總公司) (an Independent Third Party) (50%)
Term:	50 years since the issuance date of business license
Management of business and operations:	Each party has appointed three directors to the board of Nantong Dazhong Gas which currently comprises six directors. Pursuant to the shareholders' agreement of Nantong Dazhong Gas, Nantong Gas General has a right to nominate an additional director, being an independent director and an industry expert in Nantong. We are advised by our PRC legal advisers that pursuant to the articles of association, the appointment of a director has to be approved by the shareholders' meeting with more than 50% voting right. As such, an independent director can only be appointed with our consent.

(5) Jiangsu Dazhong Water

Parties and equity interest:	<ul style="list-style-type: none">• Shanghai Dazhong Environment (our subsidiary) (80%)• Wang Lu (王璐) (an Independent Third Party) (15%)• Wang Jian (王健) (an Independent Third Party) (5%)
Term:	From April 4, 1995 to May 18, 2028
Management of business and operations:	The board is composed of five directors including four directors appointed by Shanghai Dazhong Environment and one director appointed by Mr. Wang Jian (王健) and Mr. Wang Lu (王璐).

(6) Allpay International Finance Service

Parties and equity interest:	<ul style="list-style-type: none">• Dazhong Hong Kong International (60%)• 99 Wuxian Limited (99無限有限公司) (an Independent Third Party) (40%)
Term:	50 years since the issue date of business license
Management of business and operations:	The board is composed of five directors including three directors appointed by Dazhong Hong Kong International and two directors appointed by 99 Wuxian Limited. The chairman of the board is appointed by Dazhong Hong Kong International.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by us within the two years preceding the date of this prospectus and are or may be material:

- (a) an investment cooperation agreement dated December 29, 2015 entered into by and among our Company, Dazhong Transportation Group and Shanghai Dazhong Business Management, pursuant to which the parties agreed to invest RMB87.5 million, RMB100 million and RMB62.5 million, respectively, to set up Shanghai Dazhong Chuxing;
- (b) an investment cooperation agreement dated February 18, 2016 entered into between Dazhong Hong Kong International and 99 Wuxian Limited, pursuant to which Dazhong Hong Kong International agreed to invest HK\$15 million and 99 Wuxian Limited agreed to invest HK\$10 million to set up Allpay International Finance Service;
- (c) a share sale and purchase agreement dated March 23, 2016 entered into between Dazhong Lease Co., Ltd.* (大眾汽車租賃有限公司) and our Company, pursuant to which our Company acquired 100% of the equity interest in Shanghai Dazhong Transportation Commerce Co., Ltd.* (上海大眾交通商務有限公司) held by Dazhong Lease Co., Ltd. (大眾汽車租賃有限公司) with a consideration of RMB98,114,137.98;
- (d) a share purchase agreement dated May 10, 2016 entered into between Dazhong Hong Kong International and Greenland Financial Overseas Investment Group Co., Ltd., pursuant to which Greenland Financial Overseas Investment Group Co., Ltd. agreed to transfer 37,258,000 shares held by it in Suchuang Gas, representing 4.5% of the total issued capital of Suchuang Gas with a consideration of HK\$89,046,620;
- (e) a share purchase agreement dated May 27, 2016 entered into between Dazhong Hong Kong International and Fung Yu Holdings Limited, pursuant to which Fung Yu Holdings Limited agreed to transfer 96,800,000 shares held by it in Suchuang Gas, representing 11.7% of the total issued capital of Suchuang Gas with a consideration of HK\$246.84 million;
- (f) a subscription agreement dated May 27, 2016 entered into between Dazhong Hong Kong International and Suchuang Gas, pursuant to which Suchuang Gas agreed to issue and Dazhong Hong Kong International agreed to subscribe for 32,288,000 new shares of Suchuang Gas at a subscription price of HK\$2.55 per share;

- (g) an equity transfer agreement dated April 28, 2016 entered into between our Company and Shanghai Dazhong Business Management, pursuant to which Shanghai Dazhong Business Management agreed to transfer 6.63% equity interest held by it in Shanghai Dazhong Gas Investment to our Company with a consideration of RMB30.53 million;
- (h) an equity interest transfer agreement dated July 14, 2016 entered into by and among Jiangsu Dazhong Water and Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Zhang Wei (張偉), pursuant to which Jiangsu Dazhong Water agreed to transfer 15%, 12%, 12% and 12% equity interests held by it in Pizhou Fountainhead Water to Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Zhang Wei (張偉) for considerations of RMB4,267,770.72, RMB3,414,216.57, RMB3,414,216.57 and RMB3,414,216.57, respectively;
- (i) an equity interest transfer agreement dated July 14, 2016 entered into by and among Jiangsu Dazhong Water and Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Lu Lei (陸雷), pursuant to which Jiangsu Dazhong Water agreed to transfer 15%, 12%, 12% and 12% equity interests held by it in Xuzhou Fountainhead Sewage to Mr. Li Fanqun (李凡群), Ms. Lv Xuanhui (呂宣惠), Mr. Ge Yanwu (葛豔武) and Mr. Lu Lei (陸雷) for considerations of RMB3,598,752.20, RMB2,879,001.76, RMB2,879,001.76 and RMB2,879,001.76, respectively;
- (j) a non-competition agreement dated November 2, 2016 entered into between our Company and Shanghai Dazhong Business Management in relation to certain non-competition undertakings given by Shanghai Dazhong Business Management to us;
- (k) a cornerstone investment agreement (in Chinese) dated November 10, 2016, entered into among Investstar Limited, our Company, China International Capital Corporation Hong Kong Securities Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, pursuant to which Investstar Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$25 million;
- (l) a cornerstone investment agreement (in Chinese) dated November 11, 2016, entered into among Fung Yu Holdings Limited, our Company, China International Capital Corporation Hong Kong Securities Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, pursuant to which Fung Yu Holdings Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$20 million;

- (m) a cornerstone investment agreement dated November 11, 2016, entered into among Hungary CRE New Energy Equipment Co. Kft, our Company, China International Capital Corporation Hong Kong Securities Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, pursuant to which Hungary CRE New Energy Equipment Co. Kft agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$10 million;
- (n) a cornerstone investment agreement dated November 17, 2016, entered into among New China Asset Management (Hong Kong) Limited, our Company, China International Capital Corporation Hong Kong Securities Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, pursuant to which New China Asset Management (Hong Kong) Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$25 million;
- (o) a cornerstone investment agreement (in Chinese) dated November 17, 2016, entered into among ENN Energy China Investment Limited, our Company, China International Capital Corporation Hong Kong Securities Limited, Haitong International Capital Limited and Haitong International Securities Company Limited, pursuant to which ENN Energy China Investment Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) at the Offer Price which may be purchased for the Hong Kong dollars equivalent of US\$60 million; and
- (p) the Hong Kong Underwriting Agreement.


2. Intellectual property rights of our Group

Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which are material to our business:

Trademark	Class	Registration Number	Place of Registration	Registered Owner	Expiry Date
	11	3762173	PRC	Shanghai Dazhong Gas Co., Ltd., Business Office* (上海大眾燃氣有限公司營業所)	June 13, 2025
	39	5364018	PRC	Nantong Dazhong Gas	March 27, 2020
	16, 35, 36, 37 and 39	303443021	Hong Kong	our Company	June 14, 2025
	16, 35, 36, 37, 39	303443030	Hong Kong	our Company	June 14, 2025

As of the Latest Practicable Date, we had the right to use the following trademark in the PRC pursuant to the Trademark License Agreement:

Trademark	Registration		Class	Expiry Date
	No.	Registered owner		
	3358065	Dazhong Transportation Group	39	May 20, 2024

* Pursuant to the Trademark Licence Agreement entered into between Dazhong Transportation Group and our Company on May 21, 2004, our Company has the right to use the trademark with registered number 3358065 for free from May 21, 2004 to expiry of the trademark registration.

Patents

As at the Latest Practicable Date, we had registered the following patents which are material to our business:

Name of Patent	Type	Patent Number	Registered Owner	Validity Period
Device for calibrating natural gas on line	Invention	201110225695X	Shanghai Dazhong Gas and Ningbo Xinjie Gas Appliance Industrial Co., Ltd.* (寧波忻杰燃氣用具實業有限公司), an Independent Third Party	From August 8, 2011 to August 7, 2021
Screwed movable joint	Utility model	201020209459X	Shanghai Dazhong Gas	From May 28, 2010 to May 27, 2020
Combustion gas underground inlet pipe	Utility model	2010205218611	Shanghai Dazhong Gas and Wuxi Xinyang Piping Fitting Co., Ltd.* (無錫市鑫羊管閥附件有限公司), an Independent Third Party	From September 8, 2010 to September 7, 2020
Gas stand pipe plugging device	Utility model	2011202354106	Shanghai Dazhong Gas and Suzhou Fuel Gas Equipment & Valve Manufacture Co., Ltd.* (蘇州市燃氣設備閥門製造有限公司), an Independent Third Party	From July 5, 2011 to July 4, 2021

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) Disclosure of our Directors' and Supervisors' interests and short positions in the issued shares of our Company and its associated corporations

Immediately following completion of the Global Offering (and assuming the Over-allotment Option is not exercised), the beneficial interests or short positions of our Directors, Supervisors and the chief executives in any shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO), which once the Shares are listed, will be required (a) to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept therein once the Shares are listed; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules to be notified to our Company and the Hong Kong Stock Exchange, are as follows:

Long position and short position in the shares, underlying shares and debentures of our Company or its associated corporations

<u>Name</u>	<u>Nature of Interest</u>	<u>Number of Shares held</u>	<u>Class</u>	<u>Approximate % of Interest in Our Company</u>	<u>Approximate % of the Relevant Class of Our Company</u>
Mr. YANG Guoping (楊國平) ⁽¹⁾⁽¹⁰⁾	Beneficial owner	2,097,861	A Shares	0.072	0.087
Mr. ZHONG Jinxing (鍾晉偉) ⁽²⁾⁽¹⁰⁾	Beneficial owner	495,059	A Shares	0.017	0.020
Mr. LIANG Jiawei (梁嘉瑋) ⁽³⁾⁽¹⁰⁾	Beneficial owner	222,300	A Shares	0.008	0.009
Ms. YU Min (俞敏) ⁽⁴⁾⁽¹⁰⁾	Beneficial owner	712,621	A Shares	0.025	0.03
Mr. YANG Jicai (楊繼才) ⁽⁵⁾⁽¹⁰⁾	Beneficial owner	500,306	A Shares	0.017	0.02

Name	Nature of Interest	Number of Shares held	Class	Approximate % of Interest in Our Company	Approximate % of the Relevant Class of Our Company
Mr. ZHUANG Jianhao (莊建浩) ⁽⁶⁾⁽¹⁰⁾	Beneficial owner	115,000	A Shares	0.004	0.005
Ms. CAO Yongqin (曹永勤) ⁽⁷⁾⁽¹⁰⁾	Beneficial owner	57,387	A Shares	0.0020	0.0024
Mr. YANG Weibiao (楊衛標) ⁽⁸⁾⁽¹⁰⁾	Beneficial owner	54,000	A Shares	0.0019	0.0022
Ms. Zhao Siyuan (趙思淵) ⁽⁹⁾⁽¹⁰⁾	-	-	A Shares	-	-

Notes:

- (1) Mr. Yang Guoping (楊國平) holds 14,229,800 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 9.55% of the total number of shares of the Employee Share Ownership Committee.
- (2) Mr. Zhong Jinxing (鍾晉倅) holds 611,500 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 0.41% of the total number of shares of the Employee Share Ownership Committee.
- (3) Mr. Liang Jiawei (梁嘉璋) holds 112,100 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 0.07% of the total number of shares of the Employee Share Ownership Committee.
- (4) Ms. Yu Min (俞敏) holds 949,000 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 0.63% of the total number of shares of the Employee Share Ownership Committee.
- (5) Mr. Yang Jicai (楊繼才) holds 137,600 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 0.09% of the total number of shares of the Employee Share Ownership Committee.
- (6) Mr. Zhuang Jianhao (莊建浩) holds 50,000 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 0.03% of the total number of shares of the Employee Share Ownership Committee.
- (7) Ms. Cao Yongqin (曹永勤) holds 669,200 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 0.44% of the total number of shares of the Employee Share Ownership Committee.
- (8) Mr. Yang Weibiao (楊衛標) holds 164,000 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee (上海大眾企業管理有限公司職工持股會), representing 0.11% of the total number of shares of the Employee Share Ownership Committee.
- (9) Ms. Zhao Siyuan (趙思淵) holds 881,100 shares in Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會), representing 0.59% of the total number of shares of the Employee Share Ownership Committee.
- (10) Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) is the beneficial owner of the 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in 495,143,859 A Shares held by Shanghai Dazhong Business Management.

(b) Persons who have an interest or short position discloseable under Divisions 2 and 3 of Part XV of the SFO and Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering (and assuming the Over-allotment Option is not exercised), the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will directly or indirectly, be interested in 10% or more of the value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Shareholders	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate % of Interest in Our Company	Approximate % of the Relevant Class of Our Company
Shanghai Dazhong Business Management	Beneficial owner	A Shares	495,143,859	17.06	20.43
Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) ⁽¹⁾	Interest of controlled corporations	A Shares	495,143,859	17.06	20.43
Shanghai Gas Group	Beneficial owner	A Shares	158,674,147	5.47	6.55
Shenergy (Group) Company Limited* (申能(集團)有限公司) ⁽²⁾	Interest of controlled corporations	A Shares	158,674,147	5.47	6.55
Investstar Limited ⁽³⁾	Beneficial owner	H Shares	51,025,000	1.76	10.65
New China Asset Management (Hong Kong) Limited ⁽⁴⁾	Beneficial owner	H Shares	51,025,000	1.76	10.65
Fung Yu Holdings Limited ⁽⁵⁾	Beneficial owner	H Shares	40,820,000	1.41	8.52
ENN Energy China Investment Limited ⁽⁶⁾	Beneficial owner	H Shares	122,461,000	4.22	25.57

Notes:

- (1) Shanghai Dazhong Business Management Employee Share Ownership Committee* (上海大眾企業管理有限公司職工持股會) is composed of (a) the employees of Shanghai Dazhong Business Management; (b) the employees of our Group; and (c) the employees of Dazhong Transportation Group. It is the beneficial owner of the 90% equity interests in Shanghai Dazhong Business Management and is deemed to be interested in entire A Shares interests held by Shanghai Dazhong Business Management.
- (2) Shenergy (Group) Company Limited* (申能(集團)有限公司) is the beneficial owner of the entire equity interests in Shanghai Gas Group and is deemed to be interested in the entire A Shares held by Shanghai Gas Group.

- (3) Investstar Limited is a wholly-owned subsidiary of Towngas Investment Company Limited (煤氣投資有限公司), which is wholly owned by The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) (stock code: 0003.HK). Therefore, each of Towngas Investment Company Limited (煤氣投資有限公司) and The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) is deemed to be interested in the H Shares held by Investstar Limited under the SFO. The number of H Shares and percentage of shareholding of Investstar Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (4) New China Asset Management (Hong Kong) Limited is owned as to 60.0% by New China Asset Management Company Limited, which is owned as to 99.4% by New China Life Insurance Company Limited (stock code: 1336.HK). Therefore, each of New China Asset Management Company Limited and New China Life Insurance Company Limited is deemed to be interested in the H Shares held by New China Asset Management (Hong Kong) Limited under the SFO. The number of H Shares and percentage of shareholding of New China Asset Management (Hong Kong) Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (5) Fung Yu Holdings Limited is wholly owned by Mr. Su Aping (蘇阿平). Therefore, Mr. Su Aping (蘇阿平) is deemed to be interested in the H Shares held by Fung Yu Holdings Limited under the SFO. The number of H Shares and percentage of shareholding of Fung Yu Holdings Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).
- (6) ENN Energy China Investment Limited is wholly owned by ENN Energy Holdings Limited (Stock Code: 02688.HK). Mr. Wang Yusuo is the controlling shareholder of ENN Energy Holdings Limited. Therefore, each of ENN Energy Holdings Limited and Mr. Wang Yusuo is deemed to be interested in the H Shares held by ENN Energy China Investment Limited under the SFO. The number of H Shares and percentage of shareholding of ENN Energy China Investment Limited are calculated based on our Offer Price of HK\$3.80 per Offer Share (being the mid-point of the indicative Offer Price range).

In addition to the above and so far as our Directors are aware, immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, save for our subsidiaries, the following entities are directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

<u>Name of Subsidiaries</u>	<u>Substantial Shareholder of such subsidiary</u>	<u>Approximate Percentage of Shareholding</u>
Shanghai Dazhong Gas	Shanghai Gas Group	50%
Minhang Dazhong Micro-credit	Shanghai Hongkou Dazhong Taxi Co., Ltd.* (上海虹口大眾出租汽車有限公司)	20%
Minhang Dazhong Micro-credit	Songz Automobile Air Conditioning Co., Ltd.* (上海加冷松芝汽車空調股份有限公司)	10%
Minhang Dazhong Micro-credit	Shanghai Dongfulong Technology Co., Ltd.* (上海東富龍科技股份有限公司)	10%

<u>Name of Subsidiaries</u>	<u>Substantial Shareholder of such subsidiary</u>	<u>Approximate Percentage of Shareholding</u>
Minhang Dazhong Micro-credit	Shanghai Gumei Asset Operation and Management Co., Ltd.* (上海古美資產經營管理有限公司)	10%
Shanghai Dazhong Financial Leasing	Dazhong Transportation Group	20%
Shanghai Dazhong Financial Leasing	Shanghai Dazhong Business Management	10%
Nantong Dazhong Gas	Nantong Gas General* (南通市燃氣總公司)	50%
Hangzhou Qiantang Sewage	Hangzhou Xiaoshan Sewage Co., Ltd.* (杭州蕭山污水處理有限公司)	10%
Jiangsu Dazhong Water	Wang Lu (王璐)	15%
Allpay International Finance Service	99 Wuxian Limited (99無限有限公司)	40%
Nantong Gas Equipment	Yang Jun (楊軍)	20%
Rudong Dazhong Gas	Rudong County Kaitai Urban Construction Investment Co., Ltd.* (如東縣開泰城建投資有限公司)	30%

Save as disclosed herein but taking no account of any Shares which may be taken up under the Global Offering, our Directors are not aware of any person who will immediately following completion of the Global Offering be directly or indirectly interested in any interest or any long position in the Shares or underlying Shares who would fall to be disclosed to our Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who is directly interested in 10% or more of the shares then in issue or equity interest in any member of our Group representing 10% or more of the equity interest in such company.

(c) Particulars of service contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total compensation paid to our Directors amounted to RMB10,889,000, RMB8,239,000, RMB12,089,000 and RMB12,365,000, respectively and the total compensation paid to our Supervisors amounted to RMB1,829,000, RMB1,784,000, RMB1,432,000 and RMB747,000, respectively. We estimate the total compensation payable to our Directors (including independent non-executive Directors) and Supervisors for the year ending December 31, 2016 will amount to approximately RMB12 million and RMB1.5 million, respectively.

Save as disclosed above, none of our Directors or Supervisors has entered or has proposed to enter into any service agreements with our Company or any members of Our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

2. Interest in suppliers and customers of our Group

Save as disclosed in this prospectus, as of the Latest Practicable Date, so far as our Directors were aware, no Director or their respective close associates or shareholder (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) had any interest in the five largest suppliers or customers of our Group.

3. Related party transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in Note 49 of the Accountant's Report set out in Appendix IA.

D. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of Hong Kong or the PRC, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

2. Litigation

Save as disclosed in this prospectus, during the Track Record Period and up to the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the H Shares in issue and H Shares to be issued as mentioned herein (including any H Shares falling to be issued pursuant to the exercise of the Over-allotment Option).

Each of the Joint Sponsors is independent from our Company pursuant to Rule 3A.07 of the Hong Kong Listing Rules. The total amount of fees payable to the Joint Sponsors by the Company is approximately RMB8.9 million.

4. Compliance Adviser

We have appointed Haitong International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the compliance adviser will advise us on the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate, or other information in this prospectus; and
- (d) where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

5. Preliminary expenses

We have not incurred any preliminary expense.

6. Promoters

The promoters of our Company are as follows:

1. Shanghai Dazhong Taxi Company* (上海市大眾出租汽車公司)
2. Shanghai Coalgas Company* (上海市煤氣公司)

3. Bank of Communications, Shanghai Pudong Branch* (交通銀行上海浦東分行)
4. Shanghai Shenhua Electrician Union Company* (上海申華電工聯合公司)

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no cash, securities or other benefit had been paid, allotted or given, nor are any such cash, securities or other benefit intended to be paid, allotted or given, to the promoter of our Company in connection with the Global Offering or the related transactions described in this prospectus.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
China International Capital Corporation Hong Kong Securities Limited	Licensed to engage in Type 1 (Dealing in securities), Type 2 (Dealing in futures contracts), Type 4 (Advising on securities), Type 5 (Advising on futures contracts) and Type 6 (Advising on corporate finance) regulated activities under the SFO
Haitong International Capital Limited	Licensed to engage in Type 6 (Advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified Public Accountants
Jin Mao P.R.C. Lawyers	PRC legal advisers to the Company
China Insights Consultancy Limited	Industry expert
BDO Financial Services Limited	Internal control consultant

8. Consents of experts

Each of the experts whose names are set out in the subsection headed “— D. Other Information — 7. Qualifications of experts” in this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. No material adverse change

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since June 30, 2016.

11. Agency fees or commission received

The Underwriters will receive an underwriting commission, and the Joint Sponsors will receive a documentation fee. Further details are set out in section headed “Underwriting — Commission and Expenses” and the paragraph headed “— D. Other Information — 3. Joint Sponsors” in this Appendix.

12. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors nor any of the persons whose names are listed in the paragraph headed “— D. Other Information — 7. Qualifications of experts” in this Appendix is interested in the promotion of our Company, or in any assets which have been within the two years immediately preceding the issue of this prospectus, or are proposed to be, acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors nor any of the persons whose names are listed in the paragraph headed “— D. Other Information — 7. Qualifications of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (c) none of our Directors or our chief executive has any interest or short position in the Shares, underlying Shares or debentures of us or any of our associated corporation (within the meaning of Part XV the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO of which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed; and
- (d) taking no account of the Shares which may be taken up under the Global Offering or upon the exercise of the Over-allotment Option, none of our Directors is aware of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

13. Taxation of dividends and on gains from sale

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by our Company.

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H Shares. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong from the trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at a rate of 16.5% on corporations and at a maximum rate of 15% on

individuals. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment.

Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

14. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted to any Director or experts referred to in the paragraph headed “— D. Other Information — 7. Qualifications of experts” in this Appendix in connection with the issue or sale of any capital of our Company or any of its subsidiaries; and
 - (iii) no commission has been paid or is payable (except commissions to underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Group;
- (b) no founders, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued;
- (c) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (d) none of the experts whose names are set out in the paragraph headed “— D. Other Information — 7. Qualifications of experts” in this Appendix:
 - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group;
- (e) save for our A Shares and corporate debts which are listed on the Shanghai Stock Exchange, none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

- (f) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures;
- (g) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus; and
- (h) all necessary arrangements have been made to enable the H Shares to be admitted into CCASS for clearing and settlement.

15. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

16. Particulars of the Selling Shareholders

Certain particulars of the Selling Shareholders are set out as follows:

Name	Description	Address	Number of Sale Shares (assuming the Over-allotment Option is not exercised)	Number of Sale Shares (assuming the Over-allotment Option is exercised in full)
Shanghai Gas (Group) Co., Ltd.* (上海燃氣(集團)有限公司)	Its business scope mainly includes, among other things, investment, construction, operation and management of natural gas pipelines and relevant transportation facilities.	Room 1008, 958 Lujiazui Ring Road, Shanghai, PRC	42,387,911	48,746,097
Wuxi Coach Co., Ltd. * (無錫客運有限公司)	Its business scope mainly includes, among other things, shuttle transport, passenger transport and cargo transport.	227, Xihu Road West, Wu Xi, Jiangsu Province, PRC	1,152,089	1,324,903

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to the section headed “Appendix VI — Statutory and General Information — D. Other information — 8. Consents of experts” in Appendix VI to this prospectus, copies of material contracts referred to the section headed “Appendix VI — Statutory and General Information — B. Further information about our business — 1. Summary of material contracts” in Appendix VI to this prospectus, and the statements of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Morrison & Foerster at 33/F, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the Accountant’s Report from BDO Limited, the text of which is set out in Appendix IA to this prospectus;
- (c) the report from BDO Limited on the unaudited condensed interim financial information, the text of which is set out in Appendix IB to this prospectus;
- (d) the report from BDO Limited relating to the unaudited pro forma adjusted consolidated net tangible assets per share attributable to the owners of the Company, the text of which is set out in Appendix II to this prospectus;
- (e) the industry report prepared by China Insights Consultancy Limited;
- (f) the internal control report prepared by BDO Financial Services Limited;
- (g) the material contracts referred to in the section headed “Appendix VI — Statutory and General Information — B. Further information about our business — 1. Summary of material contracts” in Appendix VI to this prospectus;
- (h) the written consents referred to in the section headed “Appendix VI — Statutory and General Information — D. Other information — 8. Consents of experts” in Appendix VI to this prospectus;

- (i) the service contracts referred to in the section headed “Appendix VI — Statutory and General Information — C. Further information about our directors, supervisors and substantial shareholders — 1. Disclosure of Interests — (c) Particulars of service contracts” in Appendix VI to this prospectus;
- (j) the legal opinions issued by Jin Mao P.R.C. Lawyers, our legal adviser as to PRC law in respect of our general matters and property interests of our Group;
- (k) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translations;
- (l) the Shanghai Stock Exchange Listing Rules, together with an unofficial English translation; and
- (m) the statement of particulars of the Selling Shareholders.



上海大眾公用事業(集團)股份有限公司
Shanghai Dazhong Public Utilities (Group) Co., Ltd.*