DCWT 滇池水务

KUNMING DIANCHI WATER TREATMENT CO.,LTD

昆明滇池水務股份有限公司

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

Stock Code: 3768

GLOBAL OFFERING

Sole Sponsor

Morgan Stanley

Joint Global Coordinators

Morgan Stanley

CICC 中金香港证券

海通國際 HAITONG

中泰國際 ZHONGTAI INTERNATIONAL

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華泰金融控股(香港)有限公司 HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

廣發証券(香港)經紀有限公司 GF SECURITIES (HONG KONG) BROKERAGE LIMITED

建银国际 CCB International

BOC INTERNATIONAL

招銀国际 CMB INTERNATIONAL

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

光大證券 EBS INTERNATIONAL

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

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Kunming Dianchi Water Treatment Co., Ltd.
昆明滇池水務股份有限公司

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

GLOBAL OFFERING

Number of Offer Shares	:	**339,430,000 H Shares (comprising 308,572,000 H Shares to be offered by the Company and 30,858,000 Sale Shares to be offered by the Selling Shareholders, subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**33,943,000 H Shares (subject to reallocation)**
Number of International Offer Shares	:	**305,487,000 H Shares (comprising 274,629,000 H Shares to be offered by the Company and 30,858,000 Sale Shares to be offered by the Selling Shareholders, subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	:	**HK$4.70 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)**
Nominal Value	:	**RMB1.00 per H Share**
Stock Code	:	**3768**

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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 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 to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company (on behalf of ourselves and the Selling Shareholders) and the Joint Global Coordinators (on behalf of the Underwriters) on or about Wednesday, March 29, 2017, but in any event no later than Friday, March 31, 2017. The Offer Price will be not more than HK$4.70 and is expected to be not less than HK$3.91. The Joint Global Coordinators (on behalf of the Underwriters), with consent of our Company (on behalf of ourselves and the Selling Shareholders), may reduce the number of Hong Kong Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time 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 of the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available at the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.kmdcwt.com**. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, in the event that the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications can subsequently be withdrawn. Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between our Company (on behalf of ourselves and the Selling Shareholders) and the Joint Global Coordinators (on behalf of the Underwriters) on or before Friday, March 31, 2017, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments 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 out in the sections headed "Risk Factors", "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V — Summary of the Articles of Association" in this prospectus. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors".

The Joint Global Coordinators (on behalf of the Hong Kong Underwriters) have the right in certain circumstances to terminate the obligations of the Hong Kong Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

March 24, 2017

Latest time to complete electronic applications under **HK eIPO White Form** service through the designated Website **www.hkeipo.hk**[2] . . . . 11:30 a.m. on Wednesday, March 29, 2017

Application lists open[3] . . . . 11:45 a.m. on Wednesday, March 29, 2017

Latest time to lodge **WHITE** and **YELLOW** Application Forms . . . . 12:00 noon, on Wednesday, March 29, 2017

Latest time to give **electronic application instructions** to HKSCC[4] . . . . 12:00 noon, on Wednesday, March 29, 2017

Latest time to complete payment of **HK eIPO White Form** applications by effecting Internet banking transfer(s) or PPS payment transfer(s). . . . . 12:00 noon, on Wednesday, March 29, 2017

Application lists close . . . . 12:00 noon, on Wednesday, March 29, 2017

Expected Price Determination Date[5] . . . . Wednesday, March 29, 2017

(1) Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Company's website at **www.kmdcwt.com**[6] on or before. . . . . Wednesday, April 5, 2017

(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (Please see the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus) from . . . . Wednesday, April 5, 2017

Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** with a "search by ID" function . . . . Wednesday, April 5, 2017

H Share certificates in respect of wholly or partially successful applications to be despatched on or before(7)(8) . . . . Wednesday, April 5, 2017

HK eIPO White Form e-Auto Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be despatched on or before(8)(9)(10) . . . . Wednesday, April 5, 2017

Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on . . . . Thursday, April 6, 2017

Notes:

(1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, are set forth in the section headed "Structure of the Global Offering" in this prospectus.

(2) You will not be permitted to submit your application through the designated website at **www.hkeipo.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 Wednesday, March 29, 2017, the application lists will not open on that day. Please see the section "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Wednesday, March 29, 2017, and in any event no later than Friday, March 31, 2017. If, for any reason, the Offer Price is not agreed on or before Friday, March 31, 2017, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) None of the websites or any of the information contained on the websites forms part of this prospectus.

(7) No temporary documents of title will be issued in respect of the Offer Shares. H Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, April 6, 2017, 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 respective terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

(8) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect refund cheques (where applicable) and H Share certificates (where applicable) in person from our H Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, April 5, 2017. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. Uncollected refund cheques and H Share certificates will be despatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. For details of the arrangements, please see the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

(9) Applicants who apply through the **HK eIPO White Form** service and paid their application monies through single bank accounts may have refund monies (if any) despatched to the application payment account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions through the **HK eIPO White Form** service, in the form of refund cheques, by ordinary post at their own risk.

(10) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Kunming Dianchi Water Treatment Co., Ltd., solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong 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 buy 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. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisers, or any other person or party involved in the Global Offering. Information contained in our website, located at www.kmdcwt.com does not form part of this prospectus.

CONTENTS

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. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with an investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

OUR BUSINESS AND BUSINESS MODELS

We are a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, a provider of integrated water-related services, including running water supply service and a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake. Ranked first in Yunnan Province, the PRC, we accounted for 34.0% of the designed wastewater treatment capacity and 45.1% of the actual volume of wastewater treated in the province, according to Frost & Sullivan. As of the Latest Practicable Date, we had a total of 34 plants under concession agreements, including 29 plants in operation, two plants under construction and three plants under development including two in Laos. Our projects in Laos mark our first step expanding into the Southeast Asian market. Our business falls into the following segments:

- **Wastewater treatment:** This segment of business includes design, construction and/or operation of wastewater treatment facilities under concession arrangements. As of the Latest Practicable Date, we had altogether 26 plants in operation, with a total designed capacity of 1.6 million m^3 per day, as well as two plants under construction or development. For 2014, 2015 and 2016, this segment accounted for approximately 92.6%, 85.2% and 83.7% of our revenue, respectively.

- **Other water-related service**

  – ***Reclaimed water supply***: This segment of business includes provision to commercial, industrial and governmental customers of reclaimed water generated from treated water from certain of our wastewater treatment facilities. As of the Latest Practicable Date, six plants among our wastewater treatment facilities had gained reclaimed water supply capability, with a total designed capacity of 44,000 m^3 per day. For 2014, 2015 and 2016, this segment accounted for approximately 1.0%, 1.0% and 0.7% of our revenue, respectively.

  – ***Running water supply***: This segment of business includes provision to residential, commercial, industrial customers of running water generated from our running water facilities. As of the Latest Practicable Date, we had three plants in operation, with a total designed capacity of 56,000 m^3 per day, as well as one plant under construction and two under development, including one under development in Laos. For 2014, 2015 and 2016, this segment accounted for approximately 1.6%, 4.1% and 6.1% of our revenue, respectively.

- **Others:** This segment of business mainly involves the provision of services to our Controlling Shareholders for the management of treatment facilities under trial operations they owned, in addition to transportation and other miscellaneous businesses. As of the Latest Practicable Date, we had under our management facilities with a total designed capacity of 0.5 million m^3 per day. For 2014, 2015 and 2016, this segment accounted for approximately 4.8%, 9.7% and 9.5% of our revenue, respectively. For further details, please see the section headed "Relationship with the Controlling Shareholder" in this prospectus for details.

We principally adopt the TOO, TOT and BOT project models, with a primary focus on the TOO model. For the years ended December 31, 2014, 2015 and 2016, our TOO projects contributed to 91.1%, 79.7% and 77.0% of our total revenue, respectively, our TOT projects contributed to 0.9%, 2.2% and 5.5% of our total revenue, respectively, and our BOT projects contributed to 1.6%, 6.7% and 6.4% of our total revenue, respectively. We also adopt the BOO and BT project models for some of our projects. For the TOO and TOT models, we acquire concessions to operate existing facilities for agreed prices from the relevant local governments. For the BOO and BOT models, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtain new concessions or transfer the relevant facilities back to the relevant local governments depending on project types. As of the Latest Practicable Date, of our 29 plants in operation, 15 were TOO projects, 13 were TOT projects, and one was a BOT project. For further details, please see the section headed "Business — Our Businesses — Our Projects — Project Models" in this prospectus.

OUR COMPETITIVE STRENGTHS

- Leading enterprise in the Yunnan wastewater treatment industry with a strong track record of expansion in China;
- A pioneer in technological innovation with strong technical and R&D capabilities in the industry, as reflected by our proprietary patents and industry-leading effluent quality and energy efficiency;
- Well-positioned to benefit from the steady growth of the municipal wastewater treatment industry and from the PRC government's increasing focus on environment protection and favorable industry policies;
- Unparalleled competitive edge in the reclaimed water supply business in Yunnan Province, the PRC;
- A resilient business with a track record of prudent financial performance; and
- Experienced management team and talented technical personnel.

BUSINESS STRATEGIES

- Expand our services to new geographical areas, with primary focus on relevant regions in China, and selected markets in Southeast Asia and South Asia;
- Extend our service coverage to include both upstream and downstream water businesses and other ecology-related businesses, with a primary focus on wastewater treatment, reclaimed water supply and running water supply businesses;
- Build an integrated technological innovation system, apply innovations to drive our growth and solidify our technical competitiveness;
- Strive for prudent financial and operational management and deliver sustainable returns to our Shareholders; and
- Increase our pollution reduction capability and capitalize on the opportunity of future pollution right trading scheme in Yunnan Province, the PRC.

PRICING

- **Wastewater Treatment Contracts:** As of the Latest Practicable Date, we had a total of 20 concessions, with concession periods ranging from 20 to 30 years. Our tariff for wastewater treatment services is usually set and calculated by the relevant local governments according to formulas stipulated in the relevant concession agreements, taking into account investment amounts, construction costs, operational costs and amount of wastewater treated during the previous pricing period and reasonable returns on investment. In general, we can request the relevant local governments to adjust the unit price every three or four years to reflect changing market conditions. Moreover, the concession agreements usually stipulate a guaranteed minimum volume of water treated and a guaranteed minimum unit price. Additionally, our tariff is not affected by the actual unit price the local governments charged to end users. For further details, please see the section headed "Business — Our Businesses — Concession Agreements" in this prospectus.

- **Running Water Supply Contracts:** Our tariff for running water supply services is calculated according to the volume of running water consumed multiplied by the unit price set in accordance with the relevant laws and regulations while taking operation cost into account. Unit price can be reset every four years and we can apply for a price increase whenever operation cost increases by more than 8%. We are also entitled to a guaranteed minimum volume and unit price.

- **Reclaimed Water Supply Contract:** We negotiate a contract price with each of our customers, taking into account treatment cost associated with their proposed uses and cost of reclaimed water distribution. We are in the process of obtaining a concession contract over reclaimed water service from the Kunming municipal government. For further details, please see the section headed "Business — Our Businesses — Reclaimed Water Supply Contract" in this prospectus.

RESEARCH AND DEVELOPMENT

Our research and development team are highly educated and have extensive industry experience. For 2014, 2015 and 2016, our research and development expenses were RMB3.9 million, RMB26.1 million and RMB7.4 million, representing approximately 0.5%, 3.2% and 0.8% of our revenue, respectively. We focused on improving and adapting our existing technologies and treatment techniques for the purpose of increasing pollutant removal efficiency and decreasing unit production energy cost. We entered into collaboration agreements with domestic and foreign research institutions. Most of our research projects received government grants. We were typically entitled to the ownership of the intellectual property rights developed in the research process. For further details, please see the section headed "Business — Research and Development" in this prospectus.

CUSTOMERS AND SUPPLIERS

Customers of our wastewater treatment services are primarily local governments in Yunnan Province, the PRC. Customers of our reclaimed water supply services are municipal government agencies, public parks, and residential property management companies. Customers of our running water supply services are generally local residents, commercial and industrial users and other institutions located in the covered areas. For 2014, 2015 and 2016, our largest customer accounted for approximately 58.9%, 52.3% and 53.2% and our top five largest customers accounted for approximately 96.5%, 92.6% and 89.0% of our total revenue, respectively. We also provided management services to our Controlling Shareholder during the Track Record Period. For further details, please see the section headed "Business — Customers" in this prospectus.

Our principal suppliers are power suppliers who provide electricity to our facilities, construction contractors who design and construct our facilities and suppliers of raw materials including wastewater treatment chemicals and other equipment maintenance replacements. Purchases from our largest supplier for 2014, 2015 and 2016 accounted for approximately 57.4%, 42.0% and 35.1% and from top five suppliers accounted for approximately 72.8%, 77.5% and 69.1% of our total purchases, respectively. Under our centralized procurement policy, our subsidiaries are required to solicit bids from different suppliers and supply contracts need to be reviewed and approved by our headquarter. We have readily available alternative suppliers in the markets where we operate. For further details, please see the section headed "Business — Suppliers" in this prospectus.

SALES AND MARKETING

Our marketing is undertaken by our market development department. Our marketing strategies are as follows:

- Increase treatment capability, maintain effluent quality and deliver value to our customers;

- Formulate different marking plans according to the characteristics of different regions; and

- Attend trade fairs and engage in competitive bidding.

For further details, please see the section headed "Business — Sales and Marketing" in this prospectus.

PROJECT FINANCING

We fund our capital expenditures primarily with internal resources, bank loans and proceeds from public bond offerings in China. For 2014, 2015 and 2016, our capital expenditures were RMB159.6 million, RMB408.0 million and RMB668.2 million, respectively. As of January 31, 2017, our outstanding borrowings balance amounted to RMB1,504.7 million. For 2014, 2015 and 2016, our borrowings bore a weighted average interest rate of 7.2%, 6.5% and 5.1% per annum, respectively. The terms of our borrowings ranged from one to seven years. Our planned capital expenditures for the year ending December 31, 2017 are RMB627.4 million. We plan to fund our future capital expenditures through a combination of our internal resources, bank borrowings, proceeds from the issuance of corporate bonds and proceeds from the Global Offering. For further details, please see the section headed "Business — Project Financing" in this prospectus.

RISK FACTORS

Risks and uncertainties in our business and operations fall into three categories: (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the Global Offering. Our business may be materially and adversely affected, among others, by the following risks:

- The regulations and policies for wastewater treatment and water supply services in the PRC may be unfavorably changed.
- We may not be able to adjust the tariffs charged for our services in a timely manner to fully reflect any increase in the actual costs of our concession projects.
- We may not be able to acquire, secure, develop and execute new projects to grow our businesses.
- Our planned expansion in new geographical regions in China may not be successful.
- Our efforts to enter into international markets outside of the PRC may not be successful.

For further information, please see the section headed "Risk Factors" in this prospectus.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

Our Controlling Shareholder will hold approximately 64.20% of our issued share capital immediately following the Global Offering, assuming the Over-allotment Option is not exercised. Save for its interest in the Excluded Businesses, it does not have any interest in a business which competes with, or is likely to compete with, our business. Our Company is currently providing operation and management services to the Controlling Shareholder with respect to the Excluded Businesses.

The reasons for exclusion of the Excluded Businesses include (i) these wastewater treatment plants remain at the trial operation stage and require further investments and funding; (ii) these wastewater plants have not yet commenced commercial operation; (iii) the commercial operation of these wastewater treatment plants remains subject to passing government environmental inspection and obtaining relevant permits, the timing of which is uncertain; and (iv) we are not entitled to the guaranteed minimum tariff pursuant to our concession agreement with the Kunming Government as these wastewater plants have not passed government environmental inspection and commenced commercial operation.

Pursuant to the Non-competition Agreement with the Controlling Shareholder, we have (i) the right to request the Controlling Shareholder to sell, (ii) the right to acquire at their respective commencement of commercial operation, and (iii) the right of first offer to acquire any or all of the Excluded Businesses, so that the Group will have the flexibility to include such wastewater treatment plants into our Group as and when we deem appropriate. Further, the Controlling Shareholder has agreed to entrust the management of the Excluded Businesses to our Group so that our Group will (i) collect service fees from the Controlling Shareholder, (ii) have operational control over the same, and (iii) be able to assess when and whether to exercise the rights to acquire these plants.

We have operational, financial and management independence and conduct our business independently from the Controlling Shareholder. For further details, please see the section headed "Relationship with the Controlling Shareholder" in this prospectus.

CONNECTED TRANSACTIONS

We entered into an asset transfer agreement on April 3, 2015, as amended and supplemented by two supplemental agreements, to acquire from the Controlling Shareholder its interests in the Kunming No. 10 Water Purification Plant at a price of RMB750.17 million, subject to a final determination on the basis of the appraised value of the plant as at the last day of the month when the plant receives confirmation of construction completion, passes inspection and receives acceptance from the relevant authorities, as assessed by a qualified valuer and to be filed with Kunming SASAC. As of the Latest Practicable Date, we had paid the first installment of RMB450 million and the transaction had not been completed, primarily because Kunming No. 10 Water Purification Plant had not yet passed the governmental inspection and obtained the filing form of completion acceptance.

We plan to provide operation and management services to the Controlling Shareholder after Listing pursuant to the Entrusted Operation and Management Framework Agreement, for wastewater treatment plants in the pre-trial operation stage and the trial operation stage. We have entered and will enter into separate subsequent individual service agreement(s) to set out specific terms for each transaction. We have applied, and the Stock Exchange has granted a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements under the Listing Rules with respect to these continuing connected transactions. For further details, please see the section headed "Connected Transactions" in this prospectus.

REGULATIONS

Among Chinese laws and regulations applicable to our Company or business, we are subject to the capital fund requirements in relation to investment in wastewater treatment and water supply projects, under which we must contribute not less than 20% of our investment amount as the project company's capital fund. We are also subject to requirements in relation to granting concessions in municipal public utilities projects, under which grantees of concession rights should be selected through bidding, competitive negotiation and other competitive modes, a concession period should not exceed 30 years, tariffs should be determined by the competent government agencies through a hearing and announcement system, written requests should be submitted for tariff adjustments and treated effluent should meet the applicable national water or reclaimed water quality standards. Concessions may be withdrawn if a company commits a prohibited conduct and fails to make a remedy pursuant to the order of a competent authority. For further details, please see the section headed "Regulations" in this prospectus.

DIVIDEND POLICY

In 2015, we declared and paid dividends of RMB252.0 million. Our dividend policy for the years 2017 and 2018 is to pay dividends in an amount of no less than 50% of our annual distributable profits for the year (excluding the amount accrued in the previous years) for each of the years, respectively. The proposal of payment and the amount of our dividends for 2016 and the periods after 2018 will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Distribution of dividends is subject to shareholders' approval and various other restrictions, including PRC Company law and our Articles of Association. We cannot assure you that we will declare or pay such or any amount of dividends for each or any of the years. For further details, please see the section headed "Financial Information — Dividend Policy" and "Risk Factors — Risks Relating to Conducting Business in the PRC — Payment of dividends is subject to restrictions under PRC law" in this prospectus.

SUMMARY OF OPERATIONAL AND FINANCIAL DATA

The following tables set forth our key operational and financial data for the periods or as of the dates indicated:

Summary Operational Data

	As of December 31,		
	2014	2015	2016
Capacity ('000 m^3 per day)			
Wastewater treatment	1,127	1,165	1,544
Reclaimed water supply	32	44	44
Running water supply	–	46	56

	Year ended December 31,		
	2014	2015	2016
Volume ('000 m^3 per period indicated)			
Wastewater treatment	423,420	454,159	517,911
Reclaimed water supply	5,146	5,790	5,846
Running water supply	–	1,627	4,749

	Year ended December 31,		
	2014	2015	2016
Utilization Rate			
Wastewater treatment	103.7%	109.4%	92.8%
Reclaimed water supply	44.1%	36.1%	36.3%
Running water supply	–	23.1%	26.7%

Summary Consolidated Balance Sheets

	As of December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
ASSETS			
Non-current assets	2,609,204	3,564,803	3,824,035
Current assets	1,161,413	1,296,136	779,456
Total assets	3,770,617	4,860,939	4,603,491
EQUITY			
Total equity	2,328,486	2,219,315	2,499,410
LIABILITY			
Non-current liabilities	333,842	1,286,476	858,437
Current liabilities	1,108,289	1,355,148	1,245,644
Total liabilities	1,442,131	2,641,624	2,104,081
Total equity and liabilities	3,770,617	4,860,939	4,603,491
Net current assets/(liabilities)	53,124	(59,012)	(466,188)
Total assets less current liabilities	2,662,328	3,505,791	3,357,847

Summary Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Revenue	**735,225**	**825,107**	**914,925**
Cost of sales	(369,870)	(446,967)	(489,444)
Gross profit	**365,355**	**378,140**	**425,481**
Selling expenses	(8,230)	(9,456)	(10,605)
Administrative expenses	(48,993)	(69,857)	(97,604)
Research and development expenses	(3,918)	(26,144)	(7,398)
Other income	7,910	42,259	82,019
Other losses – net	(4,501)	(2,774)	(1,272)
Operating profit	**307,623**	**312,168**	**390,621**
Finance income	26,526	20,005	16,670
Finance costs	(55,299)	(64,064)	(80,299)
Finance costs – net	(28,773)	(44,059)	(63,629)
Share of results of associates	(955)	(367)	(121)
Profit before income tax	**277,895**	**267,742**	**326,871**
Income tax expense	(32,382)	(30,131)	(51,193)
Profit for the year	**245,513**	**237,611**	**275,678**
Other comprehensive income	–	–	–
Total comprehensive income for the year	**245,513**	**237,611**	**275,678**

Summary Consolidated Cash Flow Statements

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(61,092)**	**1,006,988**	**56,649**
Net cash used in investing activities	**(365,396)**	**(653,515)**	**(238,304)**
Net cash generated from/(used in) financing activities	**163,910**	**431,829**	**(459,048)**
Net (decrease)/increase in cash and cash equivalents	**(262,578)**	**785,302**	**(640,703)**
Cash and cash equivalents at beginning of the year	**564,809**	**302,231**	**1,087,533**
Cash and cash equivalents at end of the year	**302,231**	**1,087,533**	**446,830**

Summary Operating Results by Segment

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Wastewater treatment			
– Revenue	680,584	702,666	765,906
– Gross profit	360,274	343,366	386,938
– Gross profit margin	52.9%	48.9%	50.5%
Other water-related services			
– Revenue	19,667	42,244	62,366
– Gross profit	4,583	4,679	3,292
– Gross profit margin	23.3%	11.1%	5.3%
Others			
– Revenue	34,974	80,197	86,653
– Gross profit	498	30,095	35,251
– Gross profit margin	1.4%	37.5%	40.7%

For further details of the consolidated financial statements, including the notes thereto, please see the section headed "Appendix I — Accountant's Report" to this prospectus.

Key Financial Ratios

	As of or for the year ended December 31,		
	2014	2015	2016
Gross profit margin(1)	49.7%	45.8%	46.5%
Net profit margin(2)	33.4%	28.8%	30.1%
Return on equity(3)	10.5%	10.7%	11.0%
Return on total assets(4)	6.5%	4.9%	6.0%
Current ratio(5)	104.8%	95.6%	62.6%
Quick ratio(6)	104.2%	95.2%	61.7%
Net gearing ratio(7)	26.5%	28.0%	30.1%

Notes:

(1) Equals gross profit divided by our total revenue for the same period.

(2) Equals profit for the year divided by our total revenue for the same period.

(3) Represents profit for the year as a percentage of total equity for the same period.

(4) Represents profit for the year as a percentage of total assets for the same period.

(5) Equals current assets divided by current liabilities as at the end of the year.

(6) Equals current assets less inventories divided by current liabilities as at the end of the year.

(7) Calculated as net debt divided by total capital at the end of the year. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the year. Total capital is calculated as total equity plus net debt.

See "Financial Information — Intangible Assets — Key Financial Ratios" for an explanation of the calculation and the fluctuation of our financial ratios during the Track Record Period.

Negative Operating Cash Flows

We recorded net operating cash outflow of RMB61.1 million for 2014 primarily due to the late collection of some of our wastewater treatment fees, which was mostly collected in 2015. See "Financial Information — Liquidity and Capital Resources" for details.

Net Current Liabilities

We recorded net current liabilities of RMB540.2 million, RMB466.2 million and RMB59.0 million as of January 31, 2017, December 31, 2016 and December 31, 2015, respectively. The increase in net current liabilities was mainly attributable to a decrease in current assets as a result of cash repayment of borrowings and an increase in current liabilities as a result of certain long-term borrowings falling due within one year in 2016. In 2015, we replaced part of our short-term debts with long-term bank loans and corporate bonds. We intend to continue replacing more short-term borrowings with long-term borrowings. We had not experienced any cash flow difficulties during the Track Record Period for the following reasons:

- availability of banking facilities on competitive terms due to our long-term relationships with our financial institutions;
- easy access to credit providers due to our relatively low debt to asset ratio and strong credit history; and
- issuance of corporate bonds of approximately RMB700.0 million on December 25, 2015 in the PRC.

Our Directors confirm that there has not been any material default on our part in the payment of trade and other payables or bank and other borrowings, nor has there been any breach of financial deeds by us during the Track Record Period. Taking into account the financial resources available to us, including the currently available bank facilities, uncommitted facilities backed by the letters of intent issued by the relevant banks, our existing cash resources, the expected cash from operating activities and the estimated net proceeds from the Global Offering, our Directors confirm and the Sole Sponsor concurs that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

For further details, please see the section headed "Financial Information — Working Capital — Directors' statements on our liquidity and cash flow position" in this prospectus.

Receivables under Service Concession Arrangements

Our receivables under service concession arrangements that were classified as current assets amounted to RMB4.2 million, RMB6.1 million and RMB9.7 million as of December 31, 2014, 2015 and 2016, respectively. This represented a year-to-year increase of 45.2% between 2014 and 2015 and a year-to-year increase of 59.0% between 2015 and 2016. Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB57.5 million, RMB243.9 million and RMB341.9 million as of December 31, 2014, 2015 and 2016, respectively. This represented a year-to-year increase of 324.2% between 2014 and 2015 and a year-on-year increase of 40.2% between 2015 and 2016. For further details, please see the section headed "Financial Information — Working Capital — Receivables under service concession arrangements" in this prospectus.

Significant judgment is exercised in determining the fair value of the consideration for construction service and the financial receivables at initial recognition. Major estimates and assumptions used in the valuation process include the discount rate, concession period, tariff, gross margin and treated effluent volume for the BOT/TOT model and the discount rate for the BT model. See "Appendix I — Accountant's Report — Note 2.10 of Section II — Service concession arrangements" for further details.

Due to the accounting treatment of BOT projects, while we recognize construction revenue for the BOT projects, we actually do not receive any payment from the local governments for our construction services. The actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash tariff payments during the operational phase of the relevant BOT projects over the stipulated concession periods, and it may take up to 30 years to settle the mismatch. See "Appendix I — Accountant's Report — Note 9 of Section II — Receivables under service concession arrangements" for further details.

Accounting Treatment under Different Project Models

The applicable accounting treatments for the different project models are different. Specifically, revenues from different models are apportioned into:

- TOO: operation revenue;
- TOT: operation revenue and finance income (recognized in revenue);
- BOT: construction revenue, operation revenue and finance income (recognized in revenue); and
- BT: construction revenue and finance income (recognized in finance costs – net).

For BOT/TOT projects, the initial investment amount will be capitalized as receivables under service concession agreement, intangible assets, or a combination of both, and intangible assets undergo continuous amortization. For BOO/TOO projects, the initial investment amount will be capitalized as property, plant and equipment, and depreciate during operational period. For BT projects, the initial investment amount will be capitalized as amounts due from customers for construction contracts and then finance income will be recognized during the collection period. Different project models also affect how revenue is recognized and allocated during the construction and operation phases of the project, with corresponding cash flow impact. See "Financial Information — Critical Accounting Policies, Judgments and Estimates", "Appendix I — Accountant's Report — Note 2.10 of Section II — Service concession arrangements" and "Appendix I — Accountant's Report — Note 2.27 of Section II — Revenue recognition" for details.

Government Grants

During the Track Record Period, we recognized significant government grants which were recognized as other income, amounting to RMB4.2 million, RMB38.7 million and RMB75.3 million for the years ended December 31, 2014, 2015 and 2016, respectively. See "Financial Information — Description of Selected Income Statement Items — Other income" for details.

GLOBAL OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option has not been exercised.

	Based on an Offer Price of HK$3.91	Based on an Offer Price of HK$4.70
Market capitalization[(1)]	HK$4,022 million	HK$4,834 million
Unaudited pro forma adjusted consolidated net tangible assets per Share[(2)]	HK$3.72	HK$3.94

Notes:

(1) The calculation of market capitalization is based on 339,430,000 H Shares expected to be issued under the Global Offering, and assuming that 1,028,572,000 Shares are issued and outstanding immediately following the completion of the Global Offering.

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company is arrived at after the adjustments referred to in the section headed "Appendix II — Unaudited Pro Forma Financial Information" in this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK$4.31 per H Share (being the mid-point of the stated range of the Offer Price of between HK$3.91 and HK$4.70 per H Share), we estimate that we will receive net proceeds of approximately HK$1,218.5 million from the Global Offering (after deducting the underwriting commissions and other estimated expenses and assuming the Over-allotment Option is not exercised). We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholders.

In line with our business strategies, we intend to use the net proceeds from the Global Offering for the following purposes and in the amounts (assuming the Over-allotment Option is not exercised) set forth below:

- Approximately 35%, or HK$426.5 million will be used to finance BOT/BOO water treatment and running water supply projects;
- Approximately 35%, or HK$426.5 million, will be used to expand our operations through purchasing future TOT/TOO wastewater treatment and running water supply projects;
- Approximately 20%, or HK$243.7 million, will be used to repay certain of our current bank borrowings; and
- Approximately 10%, or HK$121.8 million, will be used to fund our working capital and for general corporate purposes.

For further information, please see the section headed "Future Plans and Use of Proceeds" in this prospectus.

RECENT DEVELOPMENTS

Our business model, revenue and cost structure have remained unchanged since December 31, 2016.

We acquired certain entity interests and assets after the Track Record Period. We entered into a framework agreement on June 1, 2016 to acquire 100.0% equity interests in three wastewater treatment companies in Jiangsu Province, which had an aggregate designed wastewater treatment capacity of 50,000 m^3 per day. On October 30, 2016, we entered into three share transfer agreements to acquire the three wastewater treatment companies for a total consideration of RMB80.0 million. These transactions were completed in January 2017 and these three companies have been consolidated into the Group thereafter.

These acquisitions and development would not have any material financial impact on our Group individually or in an aggregate. For further details, see "Risk Factors — Risks Relating to Our Business and Industry — The acquisitions we made after the Track Record Period are uncertain and have legal, financial and other risks", "Business — Acquisitions After the Track Record Period" and "Financial Information — Recent Developments" in this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since December 31, 2016, being the date of our latest audited financial statements and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects. Furthermore, there has been no event since December 31, 2016 and up to the date of this prospectus which would materially affect the information shown in the Accountant's report set out in Appendix I to this prospectus.

LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of RMB32.8 million, of which RMB3.9 million was charged to our consolidated statements of comprehensive income during the Track Record Period and RMB28.9 million was included in prepayments and will be subsequently charged to equity upon completion of the Listing. We expect to incur underwriting commissions and other additional listing expenses of approximately RMB66.3 million after December 31, 2016 (assuming an Offer Price of HK$4.31 per H Share), of which approximately RMB14.3 million will be charged to the consolidated statements of comprehensive income after December 31, 2016, and RMB52.0 million will be charged to equity upon completion of the Listing. None of the Selling Shareholders has incurred any listing expenses.

In this prospectus, unless the context otherwise requires, the following terms and expressions have the meaning set forth below.

"Application Form(s)"	**WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s) or where the context so requires any of them
"AQSIQ"	the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)
"Articles of Association" or "Articles"	the articles of association of the Company, as amended, which shall become effective upon the Listing and after being granted the relevant approvals from the competent PRC authorities, and as amended from time to time, a summary of which is contained in "Appendix V — Summary of the Articles of Association" to this prospectus
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Aziying Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective as of August 1, 2016, in relation to the entrusted operation of the Aziying Water Purification Plant
"Baiyuhe Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective as of August 1, 2016, in relation to the entrusted operation of the Baiyuhe Water Purification Plant
"Baiyukou Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective as of August 1, 2016, in relation to the entrusted operation of the Baiyukou Water Purification Plant
"Board" or "Board of Directors"	the board of Directors of the Company
"Board of Supervisors"	the board of Supervisors of the Company

"Business Day"	a day on which banks in Hong Kong, or, as the contexts require, the PRC are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"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 general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participant in CCASS as an investor participant who may be an individual, joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or CCASS Investor Participant
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this prospectus only, Hong Kong, Macau and Taiwan
"Company" or "Issuer"	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established in Yunnan Province, the PRC, with limited liability on December 23, 2010 in accordance with PRC laws, and, if the context requires, including its predecessors and subsidiaries
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"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

"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 on October 27, 2005 and effective on January 1, 2006, as amended, supplemented and otherwise modified from time to time
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder"	has the meaning ascribed thereto in the Listing Rules and refers to 昆明滇池投資有限責任公司 (Kunming Dianchi Investment Co. Ltd.*), a company established in Yunnan Province, the PRC with limited liability on October 13, 2004
"CSRC"	the China Securities Regulatory Commission (中華人民共和國證券監督管理委員會)
"Dianyuanzhen Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective August 1, 2016, in relation to the entrusted operation of the Dianyuanzhen Water Purification Plant
"Director(s)"	director(s) of the Company
"Domestic Shares"	ordinary shares in the Company's share capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider
"Group", "our", "we" or "us"	the Company and its subsidiaries or any of them, or, where the context so requires, in respect of the period before the Company became the holding company of the present subsidiaries, the present subsidiaries of the Company

"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
"H Share Registrar"	Tricor Investor Services Limited
"Haikou Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective as of August 1, 2016, in relation to the entrusted operation of the Haikou Water Purification Plant
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"**HK eIPO White Form**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **HK eIPO White Form** **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website **www.hkeipo.hk**
"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 Offer Shares"	the 33,943,000 H Shares initially offered by our Company for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus

"Hong Kong Public Offering"	the offering by the Company of the Hong Kong Offer Shares for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) on and subject to the terms and conditions described in this prospectus and the Application Forms
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Hong Kong Underwriters"	the Underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated March 23, 2017 relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters, and the Company, as further described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement" in this prospectus
"IFRSs"	International Financial Reporting Standards, which include standards, amendments and interpretations issued by the International Accounting Standards Board and the International Accounting Standards, and interpretation issued by the International Accounting Standards Committee
"independent third party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s), which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, are independent of the Company or are not its connected persons
"International Offer Shares"	the 305,487,000 H Shares initially offered by the Company and sold by the Selling Shareholders pursuant to the International Offering, subject to the Over-allotment Option and reallocation as described in the section headed "Structure of the Global Offering" in this prospectus

"International Offering"	the conditional placing of the International Offers Shares by the International Underwriters, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the group of international underwriters who are expected to enter into the International Underwriting Agreement, being the underwriters of the International Offering
"International Underwriting Agreement"	the underwriting agreement expected to be entered into on or around March 29, 2017 by, among others, the Joint Global Coordinators, the Joint Bookrunners, the International Underwriters, the Company and the Selling Shareholders in respect of the International Offering, as further described in the section headed "Underwriting — Underwriting Arrangements and Expenses — The International Offering" in this prospectus
"Joint Bookrunners"	Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited, Zhongtai International Securities Limited, Huatai Financial Holdings (Hong Kong) Limited, GF Securities (Hong Kong) Brokerage Limited, CCB International Capital Limited, BOCI Asia Limited, CMB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited and China Everbright Securities (HK) Limited
"Joint Global Coordinators"	Morgan Stanley Asia Limited, China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited and Zhongtai International Securities Limited

"Joint Lead Managers"	Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), China International Capital Corporation Hong Kong Securities Limited, Haitong International Securities Company Limited, Zhongtai International Securities Limited, Huatai Financial Holdings (Hong Kong) Limited, GF Securities (Hong Kong) Brokerage Limited, CCB International Capital Limited, BOCI Asia Limited, CMB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, China Everbright Securities (HK) Limited, ZMF Asset Management Limited and Sinomax Securities Limited
"Kunming Dianchi Investment"	Kunming Dianchi Investment Co. Ltd.* (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on October 13, 2004, which is an existing shareholder of the Company holding 689,886,000 Domestic Shares, representing 95.82% of total issued share capital as at the date of the prospectus, and our Controlling Shareholder
"Kunming DIG"	Kunming Development Investment Group Co. Ltd.* (昆明發展投資集團有限公司) a company with limited liability incorporated in the PRC on January 27, 2010, which is an existing shareholder of the Company holding 21,900,000 Domestic Shares, representing 3.04% of the total issued share capital of the Company as at the date of this prospectus
"Kunming IDI"	Kunming Industrial Development and Investment Co. Ltd.* (昆明產業開發投資有限責任公司), a company with limited liability incorporated in the PRC on November 30, 2005, which is an existing shareholder of the Company holding 2,738,000 Domestic Shares, representing 0.38% of the total issued share capital of the Company as at the date of this prospectus
"Kunming Industrial Development"	Kunming Industrial Development and Construction Co. Ltd.* (昆明市產業開發建設有限責任公司), and a company with limited liability incorporated in the PRC on April 28, 2013 and a wholly owned subsidiary of Kunming IDI

"Kunming No. 9 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company on August 28, 2015 in relation to the entrusted operation of the Kunming No. 9 Water Purification Plant
"Kunming No. 10 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company on August 28, 2015 in relation to the entrusted operation of the Kunming No. 10 Water Purification Plant
"Kunming No. 11 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company on October 10, 2016, with service effective as of August 4, 2016, in relation to the entrusted operation of the Kunming No. 11 Water Purification Plant
"Kunming SAMO"	Kunming State-owned Assets Management and Operations Co. Ltd.* (昆明市國有資產管理營運有限責任公司), a company with limited liability incorporated in the PRC on July 4, 1992, which is an existing shareholder of the Company holding 2,738,000 Domestic Shares, representing 0.38% of the total issued share capital of the Company as at the date of this prospectus
"Kunming SASAC"	the State-owned Assets Supervision and Administration Commission of Kunming* (昆明市人民政府國有資產監督管理委員會), a government agency that performs investor's responsibilities, supervises and manages the state-owned assets of the enterprises under the supervision of the Kunming municipal government (excluding financial enterprises), shoulders the responsibility of supervising the preservation and increment of the value of the state-owned assets of the supervised enterprises, and is responsible for drafting local laws and regulations on the management of the state-owned assets
"Kunming Xindu"	Kunming Xindu Real Estate Co. Ltd.* (昆明新都置業有限公司), a company with limited liability incorporated in the PRC on June 22, 2006 which is an existing shareholder of the Company holding 2,738,000 Domestic Shares, representing 0.38% of the total issued share capital of the Company as at the date of this prospectus

"Latest Practicable Date"	March 16, 2017, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
"Listing"	listing of the H Shares on 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 about April 6, 2017, on which the Company's H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Luolonghe Rain Water Station Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective as of August 1, 2016, in relation to the entrusted operation of the Luolonghe Rain Water Station (currently renamed as Luolonghe Water Purification Plant)
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the Main Board of the Hong Kong Stock Exchange
"Mandatory Provisions"	the "Mandatory Provisions for Articles of Association of Companies to be Listed Overseas" (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 by the former State Council Securities Committee and the former State Commission for Restructuring the Economic Systems of the PRC on August 27, 1994, as amended, supplemented or otherwise modified from time to time
"MEP"	the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)

"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)
"NDRC"	the 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)
"Non-competition Agreement"	the non-competition agreement entered into between the Controlling Shareholder and the Company dated April 25, 2016
"NSSF"	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會), an organization set up by the State Council for the management and operation of the national social security fund of the PRC
"Offer Price"	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%), at which Hong Kong Offer Shares are to be subscribed for, to be determined in the manner further described in the section headed "Structure of the Global Offering — Pricing of the Global Offering" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option expected to be granted by us and the Selling Shareholders to the Joint Bookrunners and the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the Joint Bookrunners and the International Underwriters pursuant to which our Company and the Selling Shareholders may be required to issue or sell up to 50,914,000 additional new H Shares at the Offer Price (in aggregate representing approximately 15% of the H Shares initially being offered under the Global Offering), for which our Company may be required to issue up to 46,285,000 additional H Shares, and the Selling Shareholders may be required to sell up to 4,629,000 additional H Shares at the Offer Price to cover over-allocation in the International Offering, the details of which are described in the section headed "Structure of the Global Offering — The International Offering — Over-allotment Option" in this prospectus

"PBOC"	People's Bank of China (中國人民銀行), the central bank in China
"PRC GAAP"	generally accepted accounting principles in the PRC
"PRC government" or "State"	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
"Price Determination Date"	the date, expected to be on or around March 29, 2017 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Global Coordinators, the Joint Bookrunners and the Underwriters and we (on behalf of ourselves and the Selling Shareholders) may agree, but in any event no later than March 31, 2017
"Regulation S"	Regulation S under the U.S. Securities Act
"RMB" or "Renminbi"	the lawful currency of the PRC
"Sale Shares"	the 30,858,000 H Shares to be converted from an equal number of Domestic Shares held by the Selling Shareholders to be offered for sale by the Selling Shareholders as part of the Global Offering at the Offer Price and any additional H Shares which may be offered for sale by the Selling Shareholders pursuant to the exercise of the Over-allotment Option, and references to "Sale Shares" shall include, where the context requires, the Domestic Shares from which the Sale Shares are converted
"SASAC"	State-owned Assets Supervision and Administration Commission
"SAT"	State Administration of Taxation of the PRC (國家稅務總局)
"Sayingpan Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company, effective as of August 1, 2016 in relation to the entrusted operation of the Sayingpan Water Purification Plant

"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
"Selling Shareholders"	the Controlling Shareholder and other four minority shareholders of the Company, namely Kunming DIG, Kunming IDI, Kunming SAMO and Kunming Xindu
"SFC"	the Securities and Futures Commission of Hong Kong (證券及期貨事務監察委員會)
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, comprising our Domestic Shares and H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"SOE(s)"	state-owned enterprise
"Sole Sponsor"	Morgan Stanley Asia Limited
"Stabilising Manager"	Haitong International Securities Company Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"subsidiary(ies)"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Supervisor(s)"	supervisor(s) of the Company
"Track Record Period"	the years ended December 31, 2014, 2015 and 2016
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"Underwriter"	the Hong Kong Underwriter and the International Underwriter
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"US$", "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States

"VAT"	value-added tax
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's own name
"Xindu Investment"	Kunming Xindu Investment Co., Ltd.* (昆明新都投資有限公司), the parent of our Shareholder Kunming Xindu, which is interested in 0.38% of our total issued share capital as of the Latest Practicable Date
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
"Yunlong Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company, effective as of August 1, 2016 in relation to the entrusted operation of the Yunlong Water Purification Plant
"%"	per cent.

* *For ease of reference, the English names of the PRC established companies or entities, laws or regulations are translation and/or transliteration of their Chinese names and have been included in this prospectus for identification purposes only. In the event of any inconsistency between the Chinese names and their English translations and/or transliterations, the Chinese version shall prevail.*

This glossary of technical terms contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"A/O"	Anaerobic-Oxic, a type of wastewater treatment technique, which utilizes an anaerobic selector to develop a biomass for phosphorus removal
"A^2/O" or "A^2O"	A^2/O (Anaerobic-Anoxic-Oxic), a commonly used technique for wastewater treatment, whose biological reaction treatment process includes an anaerobic phase, an anoxic phase and an aerobic phase
"activated sludge"	a biological floc composed of bacteria and protozoa reproduced in the biological reaction tank
"activated sludge process"	a biological process of treating wastewater, which constantly mixes and cultivates micropopulation in wastewater to generate suspending activated sludge, whose biological feature is used to resolve and remove the organic pollutants in the wastewater; then the sludge will be separated from the water, most of which will flow back to the biological reaction tank, and the rest of which will be discharged out of the activated sludge system as the reaming sludge
"aerobic" or "oxic"	an environmental status which contains dissolved oxygen or both oxygen and nitrate nitrogen in process of biological wastewater treatment
"anaerobic"	an environmental status which does not contain dissolved oxygen nor nitrate nitrogen in process of biological wastewater treatment
"BOD"	Biochemical Oxygen Demand, which is the amount of dissolved oxygen consumed by microorganisms to break down organics present in a given water sample under certain conditions over a specific time period. It is widely used as an indication of the organic quality of water

"BOO"	Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
"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, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water 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 at nil consideration
"BT"	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
"CAGR"	compound annual growth rate, which is the annual growth rate over a specified period of time longer than one year
"CASS"	Cyclic Activated Sludge System, a wastewater treatment technique that utilizes a single sludge in a single reactor basin to accomplish both biological treatment and solids-liquid separation
"Class I Standard A"	the highest treated wastewater standard in the National Wastewater Standards (GB18918-2002)
"Class I Standard B"	the second highest treated wastewater standard in the National Wastewater Standards (GB18918-2002)

"COD"	Chemical Oxygen Demand, the corresponding mass concentration of oxygen of the amount of oxidant consumed when strong oxidant is used to deal with a given water sample and is measured with mg/L. It has different ways according to the oxidizing agent, such as potassium permanganate (expressed as COD, also known as COD_{mn}) and potassium dichromate (COD_{cr} to represent)
"COD_{cr}"	the corresponding mass concentration of oxygen of the oxidant consumed when potassium dichromate is used to treat a given water sample under certain circumstances
"commercial operation"	A stage where a facility is operated under concessionary arrangement with the relevant government authority and qualifies for a guaranteed minimum purchase volume from the government
"end user"	a person or entity who ultimately uses or is intended to ultimately use a product or service
"filtration"	the process of separating solid particles from liquid or gas, by adding a medium which only the fluid can pass. Usually with filter paper, filter cloth, metal cloth, sand, anthracite and other porous materials as filter materials
"m^3"	cubic meter, which is a volume unit, equal to the volume of a cube of one meter the length of each side
"management services"	a business model in which an enterprise is retained to operate and maintain water supply, wastewater treatment or waste disposal facilities for a certain period for certain operation and maintenance fees
"MBR"	membrane bio-reactor technology, a water treatment technology which combines a biological reaction and a membrane separation process, using membrane — gravity settling instead of the common solid — liquid separation to gain water and can change and promote the reaction rate in the wastewater treatment

"membrane"	a selective barrier that allows the passage of certain constituents and retains other constituents found in the liquid with the degree of selectivity of a membrane depending on the membrane pore size, according to which the membranes can be classified as microfiltration, ultrafiltration, nanofiltration and reverse osmosis membranes
"Municipal Wastewater Discharge Standard"	the Wastewater Quality Standards for Discharge to Municipal Sewers (CJ343-2010), promulgated by the MOHURD on July 29, 2010
"National Drinking Water Standard (GB5749-2006)"	the Drinking Water Standard (GB5749-2006), jointly promulgated by the Standardization and Administration of the PRC and the Ministry of Health of the PRC (now the National Health and Family Planning Commission of the PRC) on December 29, 2006
"National Wastewater Standard (GB18918-2002)"	the Discharge Standard of Pollutant for Municipal Wastewater Treatment Plant (GB18918-2002) promulgated by the MEP on December 24, 2002 and amended on May 8, 2006
"NH_3-N"	ammoniacal nitrogen in the form of free ammonia (NH_3) and ammonium ion (NH_4^+) in water
"Oxidation Ditch"	a form of activated sludge treatment, whose structure is a closed canal without terminal, is used for the degradation of organic pollutants, nitrogen and phosphorus and other nutrients, and commonly uses mechanical oxygen filling and propelled water
"pre-trial operation"	A stage in the project construction process as prescribed by the PRC government in accordance with the Provisions on Municipal Projects Design Budget Estimate Making (市政工程設計概算編製辦法, Jian Biao [2011] 1) issued by the Ministry of Housing and Urban-Rural Development where a facility under construction is tested for its operational functionality and further developed to qualify for regulatory approvals and enter commercial operation
"reclaimed water"	collected rainwater, industrial drainage and domestic sewage which, after proper treatment, meet the required water quality standards and can be reused as non-drinking water
"running water"	water that meets relevant standards for people's living and production after being purified and disinfected by water treatment plants

"running water supply"	use of physical, chemical and biological processes to remove pollutants from raw water before pumping it into a municipal pipeline network as tap water for various uses
"SBR"	Sequencing Batch Reactor (SBR) is an activated sludge treatment process where water inflow, reaction, sedimentation and drainage and other treatment processes in chronological order are in the same reactor
"sludge treatment"	the process of sludge reduction, stabilization and safe disposal, generally including conditioning, thickening, dewatering, anaerobic digestion or aerobic digestion, lime stabilization, fermentation, drying and incineration
"surface water"	dynamic and static water on the land collectively, also known as "land water", including all kinds of solid and liquid water, mainly refers to rivers, lakes, swamps, glaciers, ice caps, et cetera
"Surface Water Quality Standard Class III (GB3838-2002)"	Class III of the Surface Water Quality Standard (GB3838-2002), jointly promulgated by the MEP and the AQSIQ on April 28, 2002
"Surface Water Quality Standard Class IV (GB3838-2002)"	Class IV of the Surface Water Quality Standard (GB3838-2002), jointly promulgated by the MEP and the AQSIQ on April 28, 2002
"tariff"	a fee or the rate of a fee charged for the provision of a certain service or product
"TN"	total nitrogen, the sum of nitrate-nitrogen (NO_3-N), nitrite-nitrogen (NO_2-N), ammonia-nitrogen (NH_3-N) and organic nitrogen in wastewater
"TOO"	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government

"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 property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water 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 at nil consideration
"TP"	total phosphorous, the sum of orthophosphate, pyrophosphate, metaphosphate, polyphosphates and organic phosphates in water
"μm"	symbol of micrometer, a unit of length, whose symbol is μm, which equals one-millionth of a meter
"utilization rate"	the actual volume of water supplied or wastewater treated divided by the designed volume of water supplied or wastewater treated for a given period
"wastewater"	water discharged from living and production activities and contaminated to some degree
"wastewater treatment"	use of physical, chemical and biological methods to remove pollutants from wastewater or to turn pollutants into innoxious substances before discharging it into a water body or reclaiming it for reuse
"wastewater treatment plant" and "water purification plant"	are used interchangeably in this prospectus
"weighted average utilization rate"	the total actual daily volume of water supplied or wastewater treated divided by the total designed volume of water supplied or wastewater treated for a given period within a given set of facilities

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe", "expect", "estimate", "predict", "aim", "intend", "will", "may", "plan", "consider", "anticipate", "seek", "should", "could", "would", "continue", or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our ability to implement our business plans and strategies successfully;
- future developments, trends and conditions in the industry and markets in which we operate;
- our capital expenditure and operational plans;
- the actions and developments of our competitors;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business;
- general political and economic conditions;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- various business opportunities that we may pursue; and
- macroeconomic measures taken by the PRC government to manage economic growth.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under the section headed "Risk Factors" and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

The Global Offering involves certain risks. You should carefully consider all of the information in this prospectus, including, but not limited to, the risks and uncertainties described in the following risk factors when considering making an investment in our H Shares being offered in the Global Offering. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that we are a PRC company, our business is mainly located in the PRC and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. Our business, financial condition and results of operations could be adversely affected by any of the risks and uncertainties described below. The trading price of our H Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

The regulations and policies for wastewater treatment and water supply services in the PRC may be unfavorably changed.

We operate within an industry where regulatory standards play a critical role in influencing the demand for our services. Any changes in legislative, regulatory or industrial requirements may necessitate the upgrades and improvements of certain of our wastewater treatment, reclaimed water supply and running water supply technologies and facilities.

The governments at various levels in the PRC have adopted policies favorable to the environmental protection industry and have stated their intentions to increase spending in such industry. For example, at the national level, the State Council, the Ministry of Finance and the Ministry of Housing and Urban-Rural Development have issued and promulgated the Regulations on Urban Drainage and Sewage Treatment (城鎮排水與污水處理條例) and the National Urban Wastewater Treatment and Recycling Facilities Construction Plan During the 13th Five-year Plan Period (“十三五”全國城鎮污水處理及再生利用設施建設規劃) (“**13th Five-Year Wastewater Treatment Plan**”) to promote the development of wastewater treatment and reclaimed water industries. At the provincial level, Yunnan Province has expressed similar intentions in the Opinion of the People’s Government of Yunnan Province on Accelerating the Construction of Urban Sewage and Municipal Solid Waste Treatment Facilities and Enhancing Operational Management Work (雲南省人民政府關於加快城鎮污水生活垃圾處理設施建設和加强運營管理工作的意見) and the Guidance Opinion of the General Office of the People’s Government of Yunnan Province on Enhancing the Construction and Operational Management of Auxiliary Pipeline and Network for Urban Sewage Treatment Plants (雲南省人民政府辦公廳關於加强城鎮污水處理廠配套管網建設和運營管理的指導意見).

We anticipate those policies and plans will stimulate the market and increase the demand of our wastewater treatment, reclaimed water supply and running water supply services. However, the implementation of those policies and plans may be delayed, and we cannot assure you how and whether the government authorities will indeed execute such plans. Nor can we predict the precise impact on the wastewater treatment, reclaimed water supply and running water supply industries arising from the actual implementation of those policies. Even if such policies and plans are duly executed, we cannot assure you that they would translate into actual funds and increased demand and we may not receive the substantive benefits we expect.

Meanwhile, changes in environmental regulations and policies may heighten the quality standard requirements for our wastewater treatment, reclaimed water supply and running water supply businesses and lead to higher operational costs. We may also fail to seize the business expansion opportunities provided by the heightened quality standards through the acquisition of plants and facilities unable to meet those requirements.

If we were unable to take advantages of the favorable policies and adapt to changes in policies, regulations and industry standards in a cost-effective manner, our profitability, competitiveness and growth could be adversely affected.

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

Our concession agreements contain provisions specifying the circumstances under which we can adjust the tariffs we charge, including changes in relevant benchmark prices, 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 (usually every three or four years) assessments of unit prices based on the adjustment formula specified therein. However, we cannot assure you that such periodic assessments would occur in a timely manner, nor can we assure you that the increased tariffs would sufficiently compensate us for our increased cost.

If the local governments or their designees fail to complete such tariff adjustment procedures in a timely manner or fail to adjust the wastewater treatment or running water supply unit prices in accordance with the terms of the concession agreements. Under 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 would have sufficient funds or are willing to compensate us. If we incur significantly higher operating costs without a corresponding increase in tariffs, our financial condition and results of operations could be materially and adversely affected.

We may not be able to acquire, secure, develop and execute new projects to grow our businesses.

We derive a substantial portion of our revenue from operating our wastewater treatment, reclaimed water supply and running water supply projects. Our future growth largely depends on our ability to acquire, secure, develop and execute new wastewater treatment, reclaimed water supply and running water supply projects. Our ability to acquire, secure, develop and execute such new projects is dependent on a number of factors, many of which are beyond our control, including:

- national and local government policies and regulatory requirements, including environmental standards and the level and effectiveness of government promulgation of environmental protection measures that affect our customers;
- the development of our target markets, including the development of local economies and local population growth and the resulting demand for wastewater treatment, reclaimed water supply and running water supply services;
- national and local economic conditions;
- our ability to identify feasible and attractive projects and successfully win bids or competitive negotiations or complete commercial negotiations for such projects;
- our ability to identify and resolve certain defects or risks in the acquired business during the due diligence process;
- our ability to collaborate with local governments to execute the construction and operation, as applicable, of wastewater treatment, reclaimed water supply and running water supply projects;
- competition in the PRC's wastewater treatment, reclaimed water supply and running water supply industries;
- the availability and cost of suitable land, infrastructure, equipment and raw materials necessary for the development and operation of wastewater treatment, reclaimed water supply and running water supply facilities;
- the availability and cost of financing; and
- knowledge of the local conditions of the new markets we may enter into.

We cannot assure you that we will be able to successfully leverage our experience to continue our expansion into other parts of the PRC or overseas, nor can we assure you that we will be able to realize the expected benefits of the acquired business or its products or services. If we fail to acquire, secure and execute new projects on terms and in a manner sufficient to support our growth, our business and prospects could be materially and adversely affected.

Our planned expansion in new geographical regions in China may not be successful.

We intend to actively seek expansion opportunities in China, especially in the southwestern regions. Our current operations are based in Yunnan, Guizhou, Anhui and Zhejiang Provinces and we are likely to encounter difficulties when expanding into new markets. We may lack knowledge and experience with certain local markets, and our competitors in these new markets may have stronger financial resources, more established presence, stronger relationships with local governments and better understanding of customer requirements and preferences. Our efforts to expand our operations geographically are likely to depend on a number of factors beyond our control, including the macroeconomic policies implemented by the PRC government and the local governments, the level of competition in the wastewater treatment and industrial water supply services industry, changes in customer demand and prices of equipment, raw materials and components. As such, we may not be able to manage our expansion effectively and efficiently, which could materially and adversely affect our operating results.

Our efforts to enter into international markets outside of the PRC may not be successful.

We intend to actively seek new opportunities to undertake projects in other jurisdictions outside the PRC, including Laos and other Southeast Asian and South Asian countries.

We do not have any experience in operating internationally and could face considerable challenges and risks in our expansion into international markets, including:

- a lack of local presence, communication channels and familiarity regarding local cultures, business practices and conventions and legal and regulatory environments;
- a lack of familiarity with sub-contractors and suppliers in other jurisdictions;
- a lack of laws and regulations that sufficiently cover all aspects of economic activity, including those governing the wastewater treatment and running water supply businesses;
- burden or cost of complying with foreign laws and regulations, including unexpected changes in laws and regulatory requirements;
- inherent difficulties and delays in contract enforcement through the use of foreign legal systems;
- changes in political, regulatory or economic conditions or political, social and economic instability, war and acts of terrorism;
- local market demand for our services and products;
- volatility in currency exchange rates;

- potentially adverse tax consequences;
- foreign exchange control or regulatory restrictions that could prevent us from repatriating income earned in such countries;
- difficulties in obtaining permits, licenses, approvals or authorizations for our business and operations;
- longer payment cycles and problems in collecting accounts receivables; and
- potential seizure, expropriation or nationalization of assets.

We entered into two agreements to construct a wastewater treatment plant and a running water supply plant in Laos on October 16, 2015. Since we entered into the market in Laos, we have not been in breach of any laws and regulations in Laos. Please see the section headed "Business — Our Businesses — Our Projects — Our Facilities under Development". For further details about our Laotian projects, please see the section headed "Business — Our Businesses — Our Projects — Our Projects in Laos" in this prospectus. We may experience delays in the construction of wastewater treatment plant or running water supply plant, cost over-run in terms of electricity, raw materials, labor, construction or other costs, unexpected changes in laws and regulations, change of our treatment under the current Laotian laws and regulations governing its special economic zones, political, economic and social instability and other potential adverse financial and legal consequences. We cannot assure you that we would obtain the returns we expected, or any returns at all, from our projects in Laos or other international projects under development.

We have also signed a non-binding memorandum of understanding with the Lahore Development Authority in Pakistan, where we will conduct feasibility study of BOT wastewater treatment projects. As of the Latest Practicable Date, we had not identified any potential business opportunities or entered into any contractual arrangements pursuant to this memorandum of understanding. We cannot assure you that we will find any viable business opportunities in Pakistan, and even if we find one, we may experience uncertainties and risks relating to the Pakistani political, economic and legal environments and therefore we cannot assure you that we would obtain the returns we expected, or at all, from any potential projects in Pakistan. We will apply the appropriate procedures, which may include announcement and/or shareholders' approval in accordance with the applicable regulatory requirements, including the Listing Rules, following the Listing, if we decide to conduct business in Pakistan.

We cannot assure you that our efforts to enter into any markets outside the PRC will be successful. Any of the foregoing risks could have a material and negative impact on our efforts to introduce our services and products in international markets, which in turn would materially and adversely affect our business, financial condition and results of operations.

We are subject to political, economic and legal risks of conducting business in Laos, and Laos' less developed legal system, may adversely affect our business, financial condition and results of operations.

Apart from our operations in the PRC, we also have a wastewater treatment plant and a running water supply plant under development in Laos, whose political, economic and legal environments remain susceptible to risks associated with an emerging economy and is subject to higher geopolitical risks than developed countries. Compared with more developed countries, the Laotian government may lack transparency, its administrative efficiency may be slow, and there may exist corrupted practices. Changes in the government leadership in the past had also had an effect on the Laotian government's attitude towards foreign investment. Social and political uncertainties therefore could give rise to various risks, such as safety and security risks to persons and properties.

Laos' economy differs from the economies of many countries in such respects as government involvement, level of development, growth rate, allocation of resources and inflation rate. The legal system of Laos also differs from most common law jurisdictions, in that it is a system in which previously determined legal cases have little precedential value. The laws and regulations are subject to broad and varying interpretations by government officials, courts and lawyers. Moreover, Laos has not developed a fully-integrated legal system, laws and regulations that sufficiently cover all aspects of economic activity, including those governing the wastewater treatment and running water supply businesses, and the interpretation and enforcement of these laws and regulations involve significant uncertainties. Furthermore, recognition and enforcement of legal rights through Laotian courts, arbitration centers and administrative agencies in the event of a dispute is uncertain. Additionally, Laos has not signed any regulatory cooperation agreement or memorandum of understanding with the SFC. It is also not a member of the International Organization of Securities Commissions ("**IOSCO**") or a signatory to the IOSCO Multi-lateral Memorandum of Understanding, and therefore it could be difficult for the Hong Kong regulators to obtain information or call for regulatory assistance in Laos, where circumstances necessitate in the course of overseeing us as a listed company by the regulations in Hong Kong.

In light of Laos' accession to the WTO in 2013, as part of its transition to a more market-oriented economy the Laotian Government has implemented a series of economic reforms and promulgated a series of laws and regulations to attract foreign investment and business development in Laos. Although the Laotian government has made progress in economic reform and the development of laws and regulations, those reforms usually stated only broad principles without specific guidance, and there remain inherent uncertainties and inconsistencies in the interpretation, implementation and enforcement of laws and government policies. The reforms may be subject to revision, change or abolition, and there can be no assurance that the Laotian government will continue to pursue policies of economic reform or that any reforms will be successful or the impetus to reform will continue. If any of the changes adversely affect us or our business, our business, financial condition and results of operations could be adversely affected. See "— Our efforts to enter into international markets outside of the PRC may not be successful" for further details on risks associated with our international operations.

Our plan to expand our reclaimed water supply business may not be successful.

At the Latest Practicable Date, we had wastewater treatment plants that could process reclaimed water, with an aggregate installed capacity of 44,000 m^3 per day and quality meeting the PRC Reclaimed Water Quality Standards. According to Frost & Sullivan we ranked first in Yunnan Province, the PRC, in terms of reclaimed water production capacity as at December 31, 2015. We intend to further expand our reclaimed water business.

We face considerable risks in developing and expanding the reclaimed water supply business segment, including:

- marketing risk: we may not be able to effectively market our reclaimed water supply service;

- regulatory risk: the PRC and local governments may impose stricter quality standards over reclaimed water in the future, thus raising our treatment and compliance cost;

- capital risk: significant initial investment cost for pipeline construction and other related infrastructure may hinder the expansion of our reclaimed water supply business into new markets;

- cultural risk: some customers may have cultural concerns over the use of reclaimed water and therefore may prefer to use running water despite the latter's higher cost; and

- concession risk: we may not be able to obtain concession rights over reclaimed water supply from the Kunming government within the time we anticipated.

If we fail to meet these challenges posed by the operation of our reclaimed water business, our growth, financial condition, results of operations and prospects may be adversely affected.

Our planned expansion in running water supply and industrial wastewater treatment businesses may not be successful.

We plan to expand our running water supply and industrial wastewater treatment businesses, of which we have limited experience. Currently we operate two water supply plants in Malong County, Yunnan Province, the PRC, and are constructing a running water supply plant in Shidian County, Yunnan Province, the PRC. We also entered into an agreement to construct and operate two running water supply plants in Yunnan Province, the PRC, and one running water supply plant in Laos. At the same time, we intend to expand into the industrial wastewater treatment business.

However, in the running water supply and industrial wastewater treatment businesses, the diversification of our business lines may expose us to new operational, management and planning challenges. Moreover, as the environmental laws and regulations applicable to pollution discharge and technical standards of these proposed projects are different from those of our municipal wastewater treatment and reclaimed water supply projects, we may incur additional costs to comply with these legal requirements. There is no assurance that our existing expertise can be applied successfully to these new businesses. In addition, we face competition from other running water supply and industrial wastewater treatment services providers. If we fail to meet the challenges posed by the operation of our new businesses, our business, financial condition, results of operations and prospects may be adversely affected.

Our expansion may put significant strains on our managerial, operational, financial and other resources.

We anticipate expansions of our business operations over the next few years. Our expansions have placed, and will continue to place, significant additional strains on our managerial, operational and other resources. With our expansions into other regions, we cannot assure you that our management would be able to manage and control our business activities as efficiently as they did in the past. In addition, we may not have sufficient working capital or funds to take new business opportunities and may not be able to recover the costs incurred in developing our new projects or to realize their projected benefits. The lack of sufficient managerial, operational, and other resources could jeopardize our growth which in turn could materially and adversely affect our businesses and prospects.

The acquisitions we made after the Track Record Period are uncertain and have legal, financial and other risks.

We entered into a framework agreement to purchase equity interests of certain companies in Nantong, Jiangsu Province (the "**Nantong Project**"). On October 30, 2016, we entered into share transfer agreements in relation to the Nantong Project. The acquisition of the Nantong Project was completed in January 2017. Please see the section headed "Business — Acquisitions After the Track Record Period" in this prospectus.

Historical Non-compliance and Other Legal Defects

Hongze Tianying Wastewater Treatment Plant, one of the plants involved in the Nantong Project, historically had been fined several times by the local environmental protection bureau due to poor effluent quality. Based on confirmations given by the local government, all administrative fines and penalties were finalized; and we would not be fined because of the same incidents. According to the local environmental authority, because industrial wastewater was being discharged into the municipal wastewater collection pipelines and the Hongze Tianying Wastewater Treatment Plant was designed to process only municipal wastewater, it was difficult for the current facility to treat the influent to a standard acceptable to the environmental inspectors and that it would be an ongoing issue in the near future. In order to solve this issue, we obtained an approval from the local government to upgrade the facility to include industrial wastewater treatment capability and a confirmation from the local environmental protection bureau to control the quality and composition of the incoming wastewater until the operator completes the upgrade of the facility. We chose to undertake the upgrade ourselves after the acquisition because we are in a better position, both in terms of agency costs and technical expertise, to devise our own upgrade plan for a plant that will eventually be operated by us, thus further limiting the likelihood of future non-compliance. We expect the upgrade to be completed by the end of 2017. Even though we have been advised by our PRC counsel that we are not liable for the historical non-compliance of the Hongze Tianying Wastewater Treatment Plant based on the confirmations given by the local government, we, however, cannot assure you that the local environmental protection bureau could control the quality and composition of the incoming wastewater, nor can we assure you that we would not be fined for effluent quality issues after the completion of the acquisition.

Other Potential Risks

Although we consider the Nantong Project attractive commercially, we cannot assure you that the project would be a financial success.

As a result of the foregoing, the acquisitions we made after the Track Record Period are exposed to uncertainties and have legal, financial and other risks that may adversely affect our operation and financial performance. Please see the section headed "Business — Acquisitions After the Track Record Period", "Financial Information — Recent Developments" and "Appendix I — Accountant's Report — III. Additional Financial Information" to this prospectus for further details.

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

During the Track Record Period, we received subsidies granted by various local governments as financial incentives to encourage our development and investment in the PRC wastewater treatment and water supply industries. For the years ended December 31, 2014, 2015 and 2016, we received government grants of RMB8.1 million, RMB76.2 million and RMB30.3 million, respectively.

Although some of our concession agreements state that local governments would 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 financial performance could be adversely affected.

The preferential tax treatment we currently enjoy could be unfavorably changed.

Our results of operations and profitability are affected by changes in tax rates in the PRC. Most of our subsidiaries enjoy preferential tax treatment. Please see the section headed "Financial Information — Factors Affecting Our Results of Operations and Financial Condition — Taxation" in this prospectus. For the years ended December 31, 2014, 2015 and

2016, our effective tax rates, calculated as income tax expense divided by profit before income tax, were 11.7%, 11.3% and 15.7%, respectively. Our effective tax rates may change from year to year due to the existence or expiration of any preferential tax treatment.

In addition to income tax, the VAT applicable to our business has also fluctuated during the Track Record Period. Pursuant to Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (《資源綜合利用產品和勞務增值稅優惠目錄》) issued by the State Administration of Taxation, starting from July 1, 2015, our wastewater treatment business and reclaimed water supply business were no longer fully exempted from VAT, but would instead be qualified for 70% and 50% VAT refund, respectively, for these businesses. Such a policy change translates into an increased tax burden for our businesses which led to a decrease in profit before tax of RMB21.1 million for the year ended December 31, 2015.

We cannot assure you that the PRC policies with respect to the preferential tax treatment we currently enjoy would not be unfavorably changed, or that the approval for such preferential tax treatment would be granted to us in a timely manner, or at all. The termination or expiration of our preferential tax treatment or the imposition of additional taxes on us may lead to an increase in our expenses and may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our inability to maintain our competitiveness could adversely affect our performance.

The wastewater treatment and running water supply services industries in the PRC are highly fragmented and are competitive, with a large number of operators throughout the country. When we enter into a new market, we may face intense competition from operators with an established presence in the relevant geographical areas and from operators with similar expansion targets. We primarily compete with state-owned, privately-owned and foreign wastewater treatment and water supply companies in the PRC, some of which may have stronger accesses to capital and better relationships with local customers, and may be willing to offer lower bidding prices for new projects than we do. As a result, we cannot assure you that we would be able to successfully compete to expand into other parts of the PRC or overseas. Failure to maintain our competitiveness and any increase in competition may materially and adversely affect our business, financial condition, results of operations and prospects.

Our wastewater treatment, reclaimed water supply and running water supply projects are capital intensive with long payback periods and we may require external funding for these projects.

We are engaged in wastewater treatment, reclaimed water supply and running water supply projects, which typically require significant initial cash outlays and have long payback periods. On average, the investment payback periods for our projects range from five to 10 years. There is no assurance that we would be able to secure adequate funding or refinancing for these projects on terms that are acceptable to us or that these projects would achieve their expected returns. Historically, we have financed our capital expenditure from various sources, including cash flow from operations, bank loans and an issuance of corporate bonds.

Our ability to arrange for external financing and the cost of such financing are dependent on various factors, including general economic conditions, benchmark interest rates and credit availability from banks and other lenders. If we fail to obtain financing or refinancing for such projects in the amounts required, we may need to finance these projects from our internal resources, which may strain our resources for other corporate purposes. Additionally, we may fail to properly perform our obligations in respect of these projects as a result of a funding shortage, which may lead to a reduction in our returns and may even lead to the loss of our initial capital investments. This may also have a material adverse effect on our business, financial condition and results of operation.

We recognize revenue during the construction of our BOT projects, but typically do not receive any actual payments until the operational phase of these BOT projects, which may adversely affect our results of operations and liquidity.

For each of our BOT projects, once the facility becomes operational, we receive regular, usually monthly, cash payments from the relevant customer based on the contractually agreed pricing formula and the volume of wastewater treated or water supplied (or the contractually guaranteed minimum volume). We usually do not receive payments from our customers during the construction phase of these projects. However, in accordance with IFRSs, we recognize revenue from these projects during both the construction phase and the operational phase. We 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 20 to 30 years. There is no assurance 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.

The different accounting treatments applicable to the different project models we adopt may adversely affect our financial results.

We use different business models for our projects, including TOO, BOO, TOT, BOT and BT. The differences in business models have had an impact on our revenue and cost recognition, gross profit margin and cash flows. For example, we recognize revenue from BOT projects during both the construction and the operational phases of the projects. However, while we recognize construction revenue for the BOT projects, we actually do not receive any payment from the local governments for our construction services. The actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash tariff payments during the operational phase of the relevant BOT projects over the stipulated concession periods, and it may take up to 30 years to settle the mismatch. In contrast, for our

TOO projects, we recognize revenue only when we provide wastewater treatment services under the operational phase and we normally expect to receive the cash flow matching the recognized revenue. Meanwhile, due to the low profit margin of the construction phase of BOT projects, our blended profit margin may be negatively affected during the construction phase of BOT projects. Should we undertake more BOT projects in the future, it could result in a cash flow mismatch as we may not have the cash inflow matching the revenue recognized during the construction phase of our BOT projects, and our blended profit margin may also be negatively affected. As a result, any change in the business model mix we adopt may adversely affect our financial performance and liquidity position.

Our projects are subject to construction and operational risks, including any accidents, disruptions or delays which may occur during the construction and operation periods.

During the construction and operation periods, risks which can neither be accurately predicted nor evaluated at the beginning of the projects may later emerge and cause our actual revenue, construction costs and operational costs to deviate significantly from our initial projections. The construction and operation of our projects, including any new project that we undertake, could be adversely affected by a number of factors, including, but not limited to:

- the design institutes and/or contractors hired by us may not be able to complete the design, construction or installation work for our projects on time, within budget or to the specifications or standards set out in our contracts with them;
- the local governments may refuse to accept, or may delay the acceptance of, our constructed or acquired facilities into the coverage of the relevant concessionary operational agreements due to disputes with us with respect to the quality of the facilities;
- the failure or malfunction of the equipment installed in our projects could result in our failure to treat wastewater or raw water to the applicable standards, which could in turn result in environmental risks or risks of default under the relevant concession agreements;
- shortages of, and price increases in, equipment or materials;
- labor shortages or disputes;
- accidents during the construction or operation of our wastewater treatment, reclaimed water supply and water supply facilities;
- delays due to factors such as fires, earthquakes or other natural disasters; and
- other unanticipated circumstances or cost increases.

If we are not able to timely mitigate the influences of these factors on our business, financial condition, results of operations and prospects could be materially and adversely affected.

Any adverse change in the economic development, social conditions, government policies or natural conditions of Kunming could materially and adversely affect our business, financial condition, results of operations and prospects.

For the years ended December 31, 2014, 2015 and 2016, revenue derived from our operations in Kunming accounted for 99.8%, 98.4% and 95.0% of our revenue, respectively. While we will continue to grow our operations outside of Kunming, we expect that a substantial portion of our revenue will continue to be derived from our facilities in Kunming in the near term.

In light of the concentration of our businesses in Kunming, we are subject to risk exposures associated with this geographical region. Any slowdown in Kunming's population growth, urbanization rate and economic development could affect the demand for our wastewater treatment, reclaimed water supply and running water supply services. Moreover, Kunming is located in Yunnan Province, the PRC, a province that has historically experienced natural disasters such as earthquakes. Any occurrence of such events could jeopardize our operations. During the Track Record Period and up to the Latest Practicable Date, our facilities and business had not been materially affected by natural disasters.

While the Kunming government has adopted preferential policies such as The Implementation of the National Water Pollution Control and Treatment Science and Technology Major Project for Dianchi (昆明市國家水專項滇池項目管理辦法) issued by the Kunming Municipal Government in 2013 and the Kunming Regulations on the Supply and Utilization of Municipal Water issued by the Kunming Municipal Government in 2009 for the wastewater treatment, reclaimed water supply and running water supply industries, we cannot assure you that the Kunming government will not change or terminate such preferential policies in the future. If there is any adverse change in the demographic development, economic growth, natural conditions or government policies in Kunming, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Failure to appropriately treat wastewater or supply reclaimed or running water due to excessive pollution levels or for any other reason may adversely affect our earnings and may damage our facilities and reputation.

Our wastewater treatment, reclaimed water supply and running water supply facilities are built to treat wastewater and raw water to specified quality standards. The quality of our treated wastewater and supplied reclaimed and running water depends on the normal operation of our facilities. We are subject to risks of unknown or undiscovered defects or compatibility problems with our equipment. We cannot assure you that our staff will always be able to timely discover and repair malfunctioning equipment or any other problems with our treatment process or facilities. In these instances, our facilities may not be able to treat wastewater or raw water in compliance with the relevant regulatory and contractual standards, which could result in us being subject to claims from our customers or governmental sanctions, and could lead to the suspension of our operations pending rectification as well as reputational damage.

In addition, the incoming wastewater or raw water to be treated by our facilities may contain pollutants exceeding the types and quantity we contemplated during the design and construction of the facilities, due to, among other things, excessive discharge of pollutants, oil spills or other events beyond our control. Any excessive pollution levels of the wastewater or raw water coming into our facilities may adversely affect the operating costs and earnings of such facilities due to the higher costs of treating the wastewater or raw water to meet the quality standards specified in the agreements with our customers. Moreover, should the types or amounts of pollutants in the wastewater or raw water increase significantly, the excessive pollution could damage or accelerate the deterioration of our facilities, and might force us to stop the treatment of wastewater. Any of the foregoing could subject us to liability and damage our reputation, which could adversely affect our business, financial condition, results of operations and prospects.

Failure to obtain or renew the approvals, permits, licenses, land use rights and certificates or complete the environmental impact assessment required for the construction and operation of our wastewater treatment, reclaimed water supply and running water supply facilities could result in fines and penalties as well as disruption to our operations and growth plan.

We are required to obtain certain approvals, permits, licenses and certificates from various competent government authorities and complete the environmental impact assessment in order to develop and operate each of our wastewater treatment, reclaimed water supply and running water supply projects. Details of the approvals, permits, licenses and certificates we are required to obtain or maintain are set out in the section headed "Regulations" in this prospectus. Under relevant PRC laws and regulations, the government authorities could impose fines, suspension orders or cessation orders on the operation and construction of these facilities. Please see the section headed "Business — Legal, Regulatory and Compliance Matters" in this prospectus. We cannot assure you that all of these required approvals, licenses, permits and certificates, such as wastewater discharge permits, and the environmental impact assessment, can be obtained or completed in a timely manner.

In addition, some of these approvals, licenses, permits and certificates are subject to periodic review and renewal by the competent government authorities and the standards for compliance required in relation thereto may, from time to time, be subject to change. Any changes in the existing policies by the competent government authorities which result 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, including the suspension or shut down of our operations, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our business relies on technologies and techniques that are subject to continuous changes; we cannot assure you that our research and development initiatives will continue to enable us to remain competitive in the industries where we conduct business.

Our continued success and competitiveness in obtaining new concession rights and projects depend on our ability to develop and improve our techniques. These techniques are subject to continuous evolution and changes. Our techniques must pass rigorous testing and field trials, which can be time-consuming and expensive. The commencement and completion of tests and field trials are subject to many risks such as delays in producing or failure to produce test results, data or analysis, inadequate or inconclusive results, changes in regulatory policies or industry standards or delays by government or regulatory authorities. We cannot assure you that we will be able to keep up with changes in technology and techniques in a timely manner or at a reasonable cost. If we are unable to continue developing our techniques or if there are fundamental technological changes in the industry to which we cannot adapt, we may not be able to remain competitive in our industries, and our business, results of operations and financial condition could be materially and adversely impacted.

Furthermore, changes in regulations or standards for wastewater treatment, reclaimed water supply, running water supply and other environmental regulations may necessitate the use of new technologies or the improvement of our existing techniques. We may need to develop new technologies, upgrade existing techniques or upgrade existing facilities to meet the standards imposed by the relevant regulatory authorities, which could require more financial, human or other resources. Our ability to keep up with such new regulatory standards will significantly affect our ability to grow and to remain competitive. In the event that we are unable to develop or source new and enhanced wastewater treatment, reclaimed water supply and running water supply solutions to keep up with such technological changes in a timely manner or at reasonable costs, we may not be able to maintain our competitive edge and our market share and profits may be adversely affected.

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

We rely on patents and trademarks to protect our proprietary rights. As at the Latest Practicable Date, we had eleven registered patents, one licensed patent, seven registered copyrights, fourteen registered trademarks and five patent applications in the PRC. Please see the section headed "Appendix VI — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights" in this prospectus. Monitoring unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technologies. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technologies.

Additionally, 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 and could divert resources from our business regardless of whether or not the disputes are decided in our favor. Moreover, any significant infringement upon our technologies and techniques could weaken our competitiveness, increase our operating costs and have an adverse effect on our operations.

Moreover, as we expand our business and increase our geographical coverage, third parties may assert that our technologies or techniques infringe upon 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 substantial expenses, thereby adversely affecting our business, financial condition, results of operations and prospects.

An increase in interest rates may increase our finance costs and compromise our profitability.

We are required to make substantial capital investments during the initial phases of our projects and we have relied on bank loans and corporate bonds to finance a portion of such investments during the Track Record Period. For the years ended December 31, 2014, 2015 and 2016, our finance costs were RMB55.3 million, RMB64.1 million and RMB80.3 million, respectively. As of December 31, 2016, our net gearing ratio, calculated as net debt divided by total capital, was 30.1%.

We expect to continue to utilize bank loans and corporate bonds to finance a portion of our investments in our projects. As our bank loans and corporate bonds are principally denominated in Renminbi, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC. In the PRC, the PBOC regulates the lending rates and reserve requirement ratios for commercial banks. Between 2012 and the Latest Practicable Date, the PBOC has changed the benchmark lending rate 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 the PRC to lend to businesses, including our Company. The benchmark one-year lending rate is currently 4.35%, effective October 24, 2015. The current reserve requirement ratio, which took effect on March 1, 2016, ranges from 13.0% to 16.5%. Accordingly, changes in the interest rate and reserve requirement ratios for banks have affected, and will continue to affect, our finance costs and profitability. We cannot assure you that the PBOC will not raise lending rates or reserve requirement ratios in the future, which may increase our finance costs and thereby materially and adversely affect our business, financial condition, results of operations and prospects.

We had net current liabilities during the Track Record Period and may continue to have net current liabilities in the future.

We recorded net current liabilities of RMB540.2 million, RMB466.2 million and RMB59.0 million as of January 31, 2017, December 31, 2016 and December 31, 2015, respectively. The increase in net current liabilities was mainly attributable to a decrease in current assets as a result of cash repayment of borrowings and an increase in current liabilities as a result of certain long-term borrowings falling due within one year in 2016. We may continue to incur net current liabilities in the future.

Our net current liabilities could have certain adverse impact on our business, including: (i) limiting our ability to repay our outstanding debt; (ii) making us more vulnerable to adverse changes in economic and industry conditions; (iii) limiting our flexibility in planning for or reacting to the changes in our businesses and the industry; and (iv) limiting our ability to raise more funds in the future and/or increasing our financing costs. Failure to service our debt could result in the imposition of penalties, including, among others, increases in rates of interest that we pay on our debt and legal actions against us by our creditors, and could negatively impact our business operations, financial condition and results of operations.

Our liquidity depends on cash generated from operations, cash and cash equivalents and our access to further financial resources to fulfill our short-term payment obligations, which will be affected by our future operating performance, prevailing economic conditions, and financial, business and other factors, many of which are beyond our control.

We recorded negative operating cash flow during the Track Record Period. If we continue to record negative operating cash flow in the future, our liquidity and financial condition may be materially and adversely affected.

We recorded net operating cash outflow of RMB61.1 million for 2014 primarily due to the late collection of some of our wastewater treatment fees, which was mostly collected in 2015. See “Financial Information — Liquidity and Capital Resources” for details.

We cannot assure you that we will be able to match the timing of our payment collections with our operating expenses, and therefore we cannot assure you that we will be able to record positive operating cash flows in the future. We may need to resort to additional financing activities to fund our operations should our future operating activities be unable to generate sufficient cash flows. We cannot assure you that we will be able to obtain sufficient cash on terms acceptable to us from external sources or at all. If we incur substantial increases in financing costs arising from additional financing activities or if we cannot obtain sufficient cash, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are restricted by covenants in our financing agreements.

During the Track Record Period, we had to a certain degree relied on bank borrowings and corporate bonds to finance the acquisition and construction of our projects. As of December 31, 2014, 2015 and 2016 and January 31, 2017, our outstanding borrowings were RMB1,142.9 million, RMB1,950.9 million, RMB1,520.7 million and RMB1,504.7 million, respectively. Please see the section headed "Financial Information — Indebtedness" in this prospectus.

Our loan agreements typically include material covenants such as requirements to promptly notify the lending banks in the event of material adverse changes in our operations and financial condition as well as restrictions on the use of proceeds from the bank borrowings. We are typically required to obtain the relevant lending banks' prior written consent before we conduct reorganizations, mergers, demergers, joint ventures, capital reductions, equity transfers, transfers of major assets or creditor's rights, material investments, substantial increases of debt financing or other actions that may adversely affect our ability to repay the loans.

We cannot assure you that we will be able to obtain the lending banks' consent for any of the activities restricted by the covenants. If we engage in such activities and fail to obtain such consent, our business may be impeded. In addition, if we breach the restrictive covenants, make any misrepresentations or commit any other violation under our financing or underwriting agreements, we may trigger an event of default, which in turn could lead to an acceleration of our indebtedness or require us to compensate the lending banks and bond underwriter for their losses, and as a consequence, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We rely on the adequate, timely and continuous supply of electricity for our operation and any disruptions in electricity supply may materially hamper our business operations.

The operation of our wastewater treatment, reclaimed water supply and running water supply facilities heavily depends on the adequate, timely and continuous supply of electricity. We currently obtain most of our electricity from public electricity networks. Many cities and provinces in the PRC have suffered serious power shortages in recent years. Many of the regional grids do not have sufficient power-generating capacity to fully satisfy the increased demand for electricity driven by continued economic growth. Although our facilities in Kunming historically have not experienced major power issues, our wastewater treatment and running water supply facilities elsewhere are generally located in the outskirts of developed areas of a city or a county or other less developed areas with limited power supply facilities, which further increases the possibility of not having an adequate and timely electricity supply. Interruption to the power supply to our facilities could hamper our ability to adequately treat incoming wastewater or raw water. As a consequence, our business, financial condition, results of operations, prospects and reputation could be materially and adversely affected.

We depend on third parties for the supply of equipment, raw materials and electricity and the provision of design, construction, installation, testing and other services and may not be able to meet our operational need should we fail to engage suppliers at terms acceptable to us.

Our business significantly relies on the steady supply of various goods and services from third party suppliers, such as the supply of equipment and raw materials, as well as the provision of design, construction, installation, testing, transportation and other services. Our business may be significantly affected by the availability, cost and quality of the equipment and raw materials used to construct, install, operate and maintain our wastewater treatment, reclaimed water supply and running water supply facilities. If for any reason our primary suppliers of equipment or raw materials reduce or discontinue their delivery of such equipment or materials to us in the quantities we need or provide us with equipment or raw materials that do not meet our specifications or are on unacceptable terms, we may not be able to meet our equipment or raw material requirements and may face disruptions to our construction schedules and operations, which could adversely impact our business, financial condition, results of operations and prospects.

Furthermore, we depend in part on the availability of qualified design institutes and independent contractors for the design, construction, installation and testing of our wastewater treatment, reclaimed water supply and running water supply facilities. We do not have any direct control over the timing or quality of services or supplies provided by these institutes and contractors. We cannot assure you that such skilled institutes and contractors will continue to be available at reasonable rates in the areas in which we conduct our operations, or at all, and we may be exposed to risks relating to the quality of their services and supplies. An institute or contractor who has performed satisfactorily in one area may not be able to perform in the same manner in another area. If we are unable to find qualified design institutes and independent contractors to undertake the design and construction work for our projects, our business, financial condition, results of operations and prospects could be adversely affected.

Local governments and our other customers may make claims against us and/or terminate our services in whole or in part should we fail to meet the requirements in the relevant agreements or fully satisfy their other requirements.

The development and operation of our wastewater treatment, reclaimed water supply and running water supply projects are subject to the terms of the agreements with the local governments and our other customers.

Local governments and our other customers may make claims against us or terminate the relevant agreements with or without compensation (i) if we fail to complete construction of the facilities according to the specifications in the agreements for our BOT and BOO projects; (ii) if the treated wastewater discharged or running water supplied under by our projects fail to meet the contractual or regulatory requirements, or; (iii) if serious safety accidents occur as a result of our mismanagement.

Such failures may arise as a result of unsatisfactory project/equipment 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. If we suffer claims or if our services are terminated by our customers due to our breach of the relevant agreements, our business, financial condition and results of operations could be materially and adversely affected.

Our insurance coverage may not adequately cover the risks related to our business and operations.

We maintain insurance for our employees covering accident claims arising during the course of the construction and operation of our projects. We do not maintain other insurance for the construction and operation of our projects or the properties or raw materials used in our operations. During the Track Record Period and up to the Latest Practicable Date, no material workers' compensation claims, third party liability claims, accident compensation claims or other kinds of claims had been filed against us. We cannot assure you that such claims will not be brought against us in the future.

In addition, we cannot predict the continued availability of insurance at acceptable premium levels or at all, and as such, our insurance policies may not continue to be available at economically acceptable premiums. Moreover, we may not be able to obtain certain types of insurance at a reasonable cost or at all, such as insurance covering losses from acts of war, terrorism or natural catastrophes, which may be unavailable and/or cost prohibitive.

Furthermore, we cannot assure you that our insurance policies will be sufficient to cover all risks associated with our business and operations. We may be subject to liabilities against which we are not insured adequately or at all or liabilities against which we cannot insure. Should significant property damage or personal injury occur to our facilities or to our employees due to accidents, natural disasters or other events, our insurance policies may not adequately cover the losses that we incur, potentially leading to a loss of assets, lawsuits, employee compensation obligations or other forms of economic loss, which may have an adverse effect on our business, financial condition and results of operations.

We may be involved in legal and other proceedings from time to time and may face significant liabilities as a result.

We may be involved in disputes with various parties involved in our provision of wastewater treatment, reclaimed water and running water supply services, including the local governments, suppliers, customers and contractors. These disputes may lead to legal or other proceedings and may result in substantial costs, delays in our development and operation schedule, and the diversion of resources and management's attention, regardless of the outcome. In addition, labor disputes at our treatment facilities could significantly disrupt our operations or our expansion plans. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decisions that result in penalties or delay or disrupt the development and operations of our wastewater treatment and water supply facilities. In such cases, our results of operations could be materially and adversely affected.

We are dependent on our key management team and qualified personnel and the loss of their services without timely and suitable replacement could adversely affect our operations.

Our continued success is dependent to a large extent on our ability to retain the services of these key management personnel. The loss of their services without timely and suitable replacement could adversely affect our operations and as a result, our revenue and profit.

Due to the specialized nature of our work, there is a limited supply of adequately qualified technical specialists, including engineers. Our continued success and the implementation of our expansion plans depend largely on our ability to attract and retain high quality personnel, including executive officers, business development personnel and project managers, who have the necessary and required experience and expertise to conduct our business. If we are unable to attract and retain a sufficient number of suitably skilled and qualified technical specialists, our business, financial condition, results of operations and prospects could be materially and adversely affected.

A portion of our business is conducted with our Controlling Shareholder and its various subsidiaries and we will continue to engage in connected transactions with our Connected Persons which could expose us to potential conflict of interests with our Controlling Shareholder that could have an adverse effect on our business and operation.

We have historically been engaged in a variety of transactions with the Controlling Shareholder and its various subsidiaries and we will continue to enter into transactions with them in the future. We made loans to our Controlling Shareholder and other related parties amounting to approximately RMB678.4 million, RMB60.6 million and RMB68.7 million for the years ended December 31, 2014, 2015 and 2016, and recognized interest income amounting to approximately RMB20.5 million, RMB16.6 million and RMB14.7 million for the same periods, respectively. As advised by our PRC legal counsel, the loans to the Controlling Shareholder and other related parties by the Group as of the Latest Practicable Date did not breach the General Lending Provisions (《貸款通則》) for the following reasons: (i) although the General Lending Provisions restricts loans among enterprises in contravention of PRC regulations, according to the Provisions of the Supreme People's Court on Certain Issues concerning Application of Law in Trial of Cases involving Private Lending (Fa Shi [2015] No. 18) (《最高人民法院關於審理民間借貸案件適用若干問題的規定》(法釋[2015]18號)) (the "**Supreme Court Provisions**"), a court should uphold a private lending contract between enterprises for the need of production or business operation, subject to statutory exceptions; and (ii) our PRC legal counsel is of the view that none of the loan by the Group to the Controlling Shareholder and other related parties falls within such statutory exceptions, and (iii) all of these loans are for the need of production or operation. The amount of service fee we recognized from our management services provided to our Controlling Shareholder was approximately RMB24.5 million, RMB66.2 million and RMB73.4 million for each of the years ended December 31, 2014, 2015 and 2016, respectively. We expect to continue providing management services to our Controlling Shareholder in the future.

Our dealings with connected persons and their associates have been conducted on an arm's length basis. We anticipate that transactions with our connected persons, the Controlling Shareholder and its subsidiaries, in particular, will continue to represent a proportion of our business in the future which could expose us to potential conflict of interests with our Controlling Shareholder that could have an adverse effect on our business and operation. We have applied for and the Stock Exchange has granted us a waiver from the strict compliance with certain requirements under Chapter 14A of the Listing Rules in relation to our continuing connected transactions with the Controlling Shareholder and its subsidiaries after the Global Offering. Please see sections headed "Connected Transactions" and "Relationship with the Controlling Shareholder" in this prospectus for further details.

We are exposed to risks associated with entering into contracts with local governments in the PRC, and our performance may be significantly affected by government spending on environment protection, infrastructure construction, and other projects.

Most of our customers are local governments. The Kunming Finance Bureau alone accounted for approximately 58.9%, 52.3% and 53.2% of our revenue for the years ended December 31, 2014, 2015 and 2016, respectively. If the local governments substantially default or delay in payment or terminate their business relationships with us, we cannot assure you that we would be able to obtain compensation or secure new projects in a timely manner or at all. 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 environment protection and other infrastructure 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 governmental 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 adverse changes to the construction and operation of our projects and a withholding of, or delay in, payment to us.

Moreover, any disputes with governmental entities and other public organizations could potentially lead to contract termination if unresolved or may take a considerably longer period of time to resolve than disputes with counterparties in the private sector, and payments due to us from these entities and organizations may be delayed as a result. 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, financial condition and results of operations may be materially and adversely affected.

We are exposed to credit and liquidity risks with respect to the payment structure under our project agreements, and payment delays or defaults by our customers may negatively affect our business, financial condition, results of operations and prospects.

We are subject to the credit risks of our customers and our profitability and cash flow are dependent on timely payments by our customers for the products and services we provide to them. Our trade receivables turnover days as of December 31, 2014, 2015 and 2016 were 194.0 days, 157.3 days and 44.6 days, respectively. The significant year to year fluctuation in our receivable turnover days was primarily a result of the timing of payments we received from the Kunming government, whose late payment for the 2014 wastewater treatment fees resulted in a significant increase in our closing balance of trade receivables for the year ended December 31, 2014 and whose payment of fees in 2015 resulted in a significant decrease in our closing balance of trade receivables for the year ended December 31, 2015. See "Financial information — Working Capital — Trade and other receivables".

We cannot assure you that we will be able to collect all or any of our trade receivables within the period prescribed in our concession agreements. If any of our customers face unexpected situations, including, but not limited to, financial difficulties caused by any economic downturn or fiscal constraints, we may not be able to receive full or any payment of uncollected sums or enforce any judgment debts against such customers and we may need to make greater provisions for receivables, which could materially and adversely affect our business, liquidity, financial condition, results of operations and prospects.

Our business is subject to seasonality and our performance for certain months may not be representative for the entire year.

Our business is subject to seasonality. We typically record higher revenue from June to October than we do in the other months of the year. This is because these months are tied with the rainy season in Kunming and municipal water consumption levels also tend to be higher during the summer, leading to an increase in wastewater treatment volume. For instance, from 2014 to 2016, for our facilities in Kumming main city area, the average wastewater treatment volume of August, the month with the largest treatment volume, is about 29.4% higher than that of February, the month with the smallest treatment volume. As a result, our revenue recognized during certain months of a year may not be indicative of our performance for the entire year.

Certain defects in titles with respect to the properties occupied by us under certain service concession agreements may materially and adversely affect our ability to use such properties and in turn, affect our business, financial condition and results of operations.

As of the Latest Practicable Date, we owned 16 parcels of land in the PRC, all of which are in relation to our TOO projects. We had obtained complete and valid land use right certificates for these 16 parcels of land. We also occupied certain land and buildings for our BOT and TOT projects under our relevant service concession agreements, pursuant to which the relevant land use rights certificates and building ownership certificates are expected to be obtained by our government clients or their designees who however had not yet obtained such certificates. See “Business — Properties” for further details.

Although we have received letters from the relevant competent government authorities confirming our legal occupancy and use of such properties and from our or counter parties or their designees indemnities for potential losses, we cannot guarantee you that the lack of relevant land use rights or building ownership certificates will not subject us to penalties or fines from the relevant PRC government authorities, including, but not limited to, returning the land we occupy, ceasing the construction work on such land, having the buildings and structures on such land being confiscated or paying fines in various amounts as stipulated under relevant PRC laws and regulations, nor can we assure you that we would be able to receive indemnification from our clients or their designees in the event any penalties or fines are imposed on us. As a result our business, financial condition and results of operations may be materially and adversely affected.

There are considerable uncertainties concerning the proposed pollutant discharge quota trading scheme and we may not obtain the expected benefits as a result.

The PRC government applies a system for controlling the total amount of pollutants discharged, such as COD and sulfur dioxide, based on relevant PRC laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》). The total amount of pollutants that can be discharged by each province is determined by the PRC government. Based on such determination, each province allocates the pollutant discharge quota among cities and counties at its own discretion. In turn, each city or county then sets the pollutant discharge quota for each pollutant discharging unit under its jurisdiction.

There are no national laws or regulations issued by the PRC government governing the trading or transfer of the pollutant discharge quota. At the provincial level, there have been policies or proposals set in place to allow pilot projects for pollutant discharge quota trading. We are not sure whether and when the Kunming or Yunnan governments will adopt the proposed pollutant discharge quota trading scheme, and what industries, pollutants, and geographic areas the scheme may cover. Moreover, we do not know whether an active market for quota trading would emerge in Kunming or Yunnan Province, the PRC, even if the proposed scheme is implemented. Furthermore, the environmental protection authorities are entitled to reduce or cancel the pollutant discharge quota based on a number of factors, such as the adjustments of various discharging standards for pollutants, total pollutant discharging amount allocated or any new environmental protection laws and regulations promulgated with respect to pollutant discharge. Therefore, due to the considerable uncertainties involved in the proposed trading scheme, we may not obtain the economic benefits we expected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Uncertainties with respect to the PRC legal system could have a material and adverse effect on our business and operations.

Our business and operations are conducted in the PRC and governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes and their interpretations in terms of application and enforcement by relevant legislative and judicial authorities, various administrative regulations and decrees. There is only a limited number of published court decisions which may be cited for reference and in any case, unlike in the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Since the late 1970s, the PRC government has committed to building up a socialistic legal system to regulate business practices and the overall economic order of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving shareholders' rights, foreign investment, corporate organization and governance, commercial transactions, taxation and trade. However, the PRC has not developed a fully-integrated legal system, and its laws and regulations may not sufficiently cover all aspects of economic activity in the PRC, including those governing the resolution of disputes arising from the PRC issuer's articles of association and the transfer of the PRC issuer's shares. As many of these laws and regulations are relatively new, and given the limited volume of published decisions and the involvement of different enforcement bodies of the relevant laws and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of these laws and regulations involve significant uncertainties.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our Directors and senior management.

Our Company is incorporated under the laws of the PRC and substantially all of our assets are located in the PRC. In addition, almost all of our Directors and executive officers reside in the PRC and their personal assets may also be in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and executive officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. A judgment of a court from a foreign jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a corresponding treaty with the PRC or if the judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

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

The operating businesses of our Group are based in the PRC. As such, the business, financial condition, results of operations and prospects of our Company can be significantly affected by the economic, political, legal and social conditions and developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. Historically, the PRC economy was centrally-planned, with a series of economic plans promulgated and implemented by the PRC government. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. However, we cannot assure you that the PRC government will continue to pursue economic reforms. A variety of policies and measures that could be taken by the PRC government to regulate the economy, including the introduction of measures to control inflation, deflation, or reduce growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, changes in foreign exchange regulations, taxation and import and export restrictions may have a material and adverse effect on our business, financial condition, results of operations and prospects. Also, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other economic, political, legal and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. In addition, while the PRC's economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business may also be affected by the PRC government's economic, political and social policies on the development of Yunnan Province and other provinces, policies in relation to wastewater treatment, reclaimed water supply and running water supply, and any changes to the relevant PRC regulations on the wastewater treatment, reclaimed water supply and running water supply industries.

Payment of dividends is subject to restrictions under PRC law.

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

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRSs 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 IFRSs, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could materially and adversely impact our cash flow and ability to make dividend distributions to our Shareholders in the future, including periods in which our financial statements indicate we are profitable.

Dividends from our Company may be subject to PRC taxation.

Under the current PRC tax laws and regulations, non-PRC resident individual holders of H Shares (the "**Non-PRC Resident Individual Holders**") and non-PRC resident enterprise holders of H Shares (the "**Non-PRC Resident Enterprise Holders**") 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.

Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 (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) (Guo Shui Han [2011] No. 348) dated June 28, 2011 issued by the SAT, the tax rate applicable to dividends paid to the Non-PRC Resident Individual Holders varies from 5.0% to 20.0% (usually 10.0%) depending on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the Non-PRC Resident Individual Holders reside. The Non-PRC Resident Individual Holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. In addition, under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation regulations, the Non-PRC Resident Individual Holders are subject to individual income tax at a rate of 20.0% on gains realized upon sale or other disposition of H Shares. However, pursuant to the Circular Declaring Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the MOF and the SAT, on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. If such tax is collected, the value of such individual holders' investments in H Shares may be materially and adversely affected.

Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to a notice promulgated by the SAT, on November 6, 2008, we intend to withhold tax at 10.0% from dividends payable to the Non-PRC Resident Enterprise Holders (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payable of such refund will be subject to the PRC tax authorities' approval. As the PRC Enterprise Income Tax Law and its implementation rules are relatively new, there are uncertainties as to their interpretation and implementation by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition of H Shares will be collected from the Non-PRC Resident Enterprise Holders. If such tax is collected in the future, the value of such Non-PRC Resident Enterprise Holders' investments in H Shares may be materially and adversely affected.

Our business and your investment are exposed to foreign exchange rate fluctuations.

We conduct all of our operations in the PRC and our functional currency is Renminbi. The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other thing, changes in PRC and international political and economic conditions and the PRC government's fiscal, monetary and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. In August 2008, the Regulations of the People's Republic of China on Foreign Exchange Control (外匯管理條例) was revised to promote the reform of its exchange rate regime. In June 2010, the People's Bank of China increased the flexibility of the exchange rate. In August 2015, the PBOC changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. Since then, the value of the Renminbi depreciated considerably against the U.S. dollar. It is difficult to predict how market forces or government policies may impact the exchange rate between the RMB and the Hong Kong dollar, the U.S. dollar or other currencies in the future.

Fluctuations in exchange rates may adversely affect the value, converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. Any increased costs or reduced revenues as a result of foreign currency fluctuations could also adversely affect the profits and margins of our anticipated businesses abroad. From the perspective of the holders of our H Shares, generally, an appreciation of Renminbi against the U.S. dollar and other relevant foreign currencies could result in a foreign exchange gain for assets denominated in RMB, and a foreign exchange loss for liabilities denominated in RMB. Conversely, a devaluation of RMB against the U.S. dollar and other relevant foreign currencies could result in a foreign exchange loss for assets denominated in RMB and a foreign exchange gain for liabilities denominated in RMB. Moreover, we will need to convert part of proceeds denominated in foreign currencies from the Global Offering into Renminbi. The fluctuation in the exchange rate between the Renminbi and Hong Kong dollar and other foreign currencies may have a material and adverse effect on our business and your investment.

Government control of currency conversion may adversely affect the value of your investments.

All of our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is currently not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our H Shares. Under existing foreign exchange regulations of the PRC, following the completion of this Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements.

However, if the PRC government were to impose restrictions on access to foreign currencies for current account transactions at its discretion, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. On the other hand, most of the foreign exchange transactions under capital accounts in the PRC continue to be not freely convertible and require the approval of the SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing or to obtain foreign currencies for capital expenditures.

Furthermore, the net proceeds from the Global Offering are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected as we will not be able to invest these proceeds on RMB-denominated assets onshore or deploy them in uses onshore where Renminbi is required, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

The enforcement of the PRC Labor Contract Law (中華人民共和國勞動合同法) and increases in labor costs in the PRC may adversely affect our business and our profitability.

The PRC Labor Contract Law and its implementation rules impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. The PRC Labor Contract Law and its implementation rules also establish requirements relating to, among others, minimum wages, severance payments and non-fixed term employment contracts, time limits for probation periods as well as duration and the number of times that an employee can be placed on fixed term employment contracts. It also provides that social insurance is required to be paid on behalf of the employees and the employees are entitled to unilaterally terminate the labor contracts if this requirement is not satisfied.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which also came into effect on January 1, 2008, and its implementation measures, which were promulgated and became effective on September 18, 2008, employees who have served more than one year for an employer are entitled to paid annual leave ranging from five to 15 days, depending on their length of service. Employees who waive such annual leave at the request of employers shall be compensated at a rate of three times of their normal salaries for each waived annual leave day. Such new laws and regulations may increase our labor costs. In addition, certain companies operating in the PRC have experienced labor unrest in 2010 as a result of workers' dissatisfaction with working conditions and remuneration. We cannot assure you that these labor strikes will not affect general labor market conditions or result in changes to labor laws in the PRC, which in turn could adversely affect our business. Any significant increases in our labor costs and future disputes with our employees could nonetheless have a material and adverse effect on our business, financial condition, results of operations and prospects.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may have a material and adverse effect on our business operations, financial condition, results of operations and prospects.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics, including but not limited to those caused by avian influenza or swine influenza, may restrict business activities in the areas affected and adversely affect our business and results of operations. For example, in 2009 and 2013, there were reports of the occurrence of two types of avian influenza in certain regions of the world, including the PRC, where we operate our business. Moreover, the PRC has experienced natural disasters like earthquakes, flood and droughts in the past few years. For example, a magnitude 6.5 earthquake occurred in Ludian, Yunnan in August 2014, which, however, did not cause material damages on our wastewater treatment and water supply facilities in adjacent areas. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics, or the measures taken by the PRC government or other countries in response to such disasters and epidemics, will not seriously disrupt our operations or those of our distributors, which may have an adverse effect on our business, financial condition, results of operations and prospects.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market in Hong Kong for our H Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, no public market existed for our H Shares. The initial Offer Price range for our H Shares is the result of negotiations between us (on behalf of ourselves and the Selling Shareholders) and the Joint Global Coordinators, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Stock Exchange. We cannot assure you that an active and liquid public trading market for our H Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our H Shares will not decline below the initial Offer Price. Factors, such as variations in our revenue, earnings and cash flows or any other developments of our Company, may affect the volume and price at which the H Shares will be traded.

The price and trading volume of our H Shares may be volatile, which could result in substantial losses for investors purchasing our H Shares in the Global Offering. Factors such as fluctuations in our sales, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, or actions taken by competitors could cause the market price of our H Shares or trading volume of our H Shares to change substantially and/or unexpectedly. In addition, stock prices have been subject to significant volatility in recent years. Such volatility has not always been directly related to the performance or condition of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may adversely affect the prices of our H Shares, and as a result investors in our H Shares may incur substantial losses.

There can be no assurance if and when we will pay dividends in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Under the applicable PRC laws, dividends may be paid only out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or IFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. A decision to declare, or to pay, any dividends and the amount of any dividends will also depend on various factors, including without limitation to our business, financial condition, results of operations, cash flows, operating and capital expenditure requirements, the PRC Company Law and other applicable PRC laws and regulations, market conditions, our strategic plans and prospects for 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 from time to time, to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance as to our ability to pay or maintain distributions in respect of the Shares or that the level of distributions will increase over time. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy.

Potential investors will experience immediate dilution as a result of the Global Offering and may face future dilution as a result of future financings.

Potential investors may pay a price per H Share that is higher than our audited net asset value per H Share based on our issued share capital after the completion of the Global Offering. If we were liquidated for net asset value immediately following the Global Offering, shareholders subscribing to the Global Offering would receive less than the price they paid for their H Shares. If the Joint Global Coordinators exercise the Over-allotment Option, holders of our H Shares may experience a further dilution of their interest. In addition, in order to expand our business, we may consider offering and issuing additional H Shares in the future. Investors of our H Shares may experience dilution in the net asset value per H Share of their H Shares if we issue additional H Shares in the future. In addition, the incurrence of indebtedness would result in increased debt service obligations resulting in operating and financing covenants that would restrict our operations or our ability to pay dividends to our Shareholders.

Control by our Controlling Shareholder of a substantial percentage of our Company's share capital after the completion of the Global Offering may limit your ability to influence the outcome of decisions requiring the approval of Shareholders.

Upon completion of the Global Offering on the assumption that the Over-allotment Option is not exercised, approximately 64.20% of our issued Shares will be held by our Controlling Shareholder. The interests of our Controlling Shareholder may conflict with the interests of our other Shareholders. Following the completion of the Global Offering, our Controlling Shareholder will continue to have significant influence over us, including on matters relating to potential mergers, consolidation, the sale of all or substantially all of our assets, the election of Directors, and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of us, which could deprive our Shareholders of the opportunity to receive a premium for their H Shares as part of a sale of us or our assets, and might reduce the trading price of our H Shares. Due to our Controlling Shareholder's position, these actions may be taken even if they are opposed by our other Shareholders, including those who subscribe for our H Shares in the Global Offering. For more information regarding the share ownership of, and our relationship with, our Controlling Shareholder, please see the section headed "Relationship with the Controlling Shareholder" in this prospectus.

Waivers were granted from certain requirements of the Hong Kong Listing Rules by the Hong Kong Stock Exchange. Shareholders will not have the benefit of the Hong Kong Listing Rules that are so waived. In addition, these waivers could be revoked, exposing us and our Shareholders to additional compliance obligations.

We have applied for, and the Hong Kong Stock Exchange has granted to us, a number of waivers from strict compliance with the Hong Kong Listing Rules. Please see the section headed "Waivers from Compliance with the Listing Rules" in this prospectus for further details. We cannot assure you that the Hong Kong Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could materially adversely affect us and our Shareholders.

Any possible conversion of our Domestic Shares into H Shares in the future could increase the number of our H Shares in the market and negatively impact the market price of our H Shares.

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into H Shares in the future, and such converted shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, any requisite internal approval by our Shareholders in a general meeting is duly obtained and the approvals from relevant PRC regulatory authorities are obtained. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the public offering. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Stock Exchange one year after this Global Offering, which at that time could further increase the number of our H Shares available in the market and negatively impact the market price of our H Shares.

Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, trading of the H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several days after the pricing date. Accordingly, investors of our H Shares may not be able to sell or otherwise trade the H Shares during that period. As a result, holders of our H Shares may be subject to the risk that the trading price of our H Shares could fall before trading begins due to adverse market conditions or other adverse developments that may arise between the Price Determination Date and the date on which the trading begins.

We have significant discretion as to how we will use the net proceeds of the Global Offering and you may not necessarily agree with how we use them.

Our management may use the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering pursuant to our plan as disclosed in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus. However, our management will have discretion as to the actual utilization of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

Our business may be affected by global economic and financial conditions.

The global financial markets have been highly volatile. There are uncertainties over the effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. In addition, on June 23, 2016, the United Kingdom voted to exit the European Union. This has caused significant volatility in the global financial markets, and is expected to usher in a period of significant uncertainty in world markets, which could negatively affect the financial conditions of the global economy. A decline in the general economy could affect our client's financial conditions and may also in turn affect our financial conditions. A weak economy could also weaken investor's confidence, which constitutes the basis of the credit markets. Financial turmoil affecting the financial markets, banking systems or currency exchange rates may restrict our ability to obtain financings on commercially reasonable terms, or at all.

Forward-looking information in this prospectus may prove inaccurate.

This prospectus contains certain forward-looking statements and information relating to us that are based on our management's belief and assumptions. The words "anticipate", "believe", "expect", "going forward" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our management's current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described herein. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. You are strongly cautioned that reliance on any forward-looking statements involves known or unknown risks and uncertainties. Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed herein might not occur in the way we expect, or at all. In all cases, you should consider carefully how much weight or importance you should attach to, or place on, such facts or statistics.

We cannot guarantee the accuracy of facts and other statistics with respect to the PRC, the PRC economy and the PRC wastewater treatment, reclaimed water supply, and running water supply services industries contained in this prospectus.

We have derived certain facts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the wastewater treatment and water supply services industries in which we operate, from information provided by PRC government agencies, industry associations, independent research institutes or other third-party sources that we believe to be reliable. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled in or outside the PRC. The facts, forecasts and other statistics include the facts, forecasts and statistics included in the section headed "Risk Factors", "Industry Overview" and "Business" in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. 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. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere.

In preparation for the Global Offering, we have applied for the following waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Rules 8.12 and 19A.15 of the Hong Kong Listing Rules require a PRC-incorporated issuer to have sufficient management presence in Hong Kong. This normally means that at least two of the PRC-incorporated issuer's executive directors must be ordinarily resident in Hong Kong. Currently, none of our executive Directors resides in Hong Kong. Since our principal operations are in the PRC, we do not and, for the foreseeable future, will not have executive Directors who are ordinarily resident in Hong Kong for the purposes of satisfying the requirements of Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver pursuant to Rule 19A.15 of the Hong Kong Listing Rules from strict compliance with Rule 8.12 of the Hong Kong Listing Rules, subject to, among other conditions, our appointment of:

- two authorized representatives, Mr. Luo Yun and Mr. Chiu Ming King, who will act at all times as our principal channel of communication with the Hong Kong Stock Exchange; and

- our compliance adviser, Haitong International Capital Limited, who will act as our principal channel of communication with the Hong Kong Stock Exchange, in addition to our authorized representatives, pursuant to Rules 3A.19 and 19A.06(4) of the Hong Kong Listing Rules.

We have made arrangements to maintain effective communication with the Hong Kong Stock Exchange as follows:

- each of our authorized representatives referred to above will have access to our Board and senior management at all times as and when the Hong Kong Stock Exchange wishes to contact them for any matter. All of our Directors have provided their respective mobile phone numbers, office phone numbers, email addresses and facsimile numbers to the Hong Kong Stock Exchange. We will also inform the Hong Kong Stock Exchange promptly in respect of any change in our authorized representatives;

- Mr. Chiu Ming King, one of our authorized representatives and joint company secretaries, ordinarily resides in Hong Kong and will be readily contactable by the Hong Kong Stock Exchange at all times for any matters. All Directors who are not ordinary residents in Hong Kong have confirmed that they possess or may apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Hong Kong Stock Exchange in Hong Kong upon reasonable notice; and

- in accordance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules, we have appointed Haitong International Capital Limited as our compliance adviser for the period commencing on the date of Listing and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the date of Listing. Our compliance adviser will act as our additional channel of communication with the Hong Kong Stock Exchange and shall have access at all times to our authorized representatives, our Directors and other officers to ensure that they are in a position to promptly respond to queries or requests from the Hong Kong Stock Exchange.

QUALIFICATION OF COMPANY SECRETARY

Rules 3.28 and 8.17 of the Hong Kong Listing Rules require our company secretary to 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 a company secretary.

We have appointed Mr. Yang as one of our joint company secretaries in June 2016. Mr. Yang has been the chief financial officer of our Company since January 2015. Further biographical details of Mr. Yang are set out in "Directors, Supervisors and Senior Management". We have appointed Mr. Yang as one of our joint company secretaries due to his management experience within our Group and his thorough understanding of the internal administration, business operations and corporate culture of our Group.

As Mr. Yang does not have the qualifications stipulated under Rules 3.28 and 8.17 of the Hong Kong Listing Rules, we have appointed Mr. Chiu Ming King, who is ordinarily resident in Hong Kong and who has the requisite knowledge and experience under Rules 3.28 and 8.17 of the Hong Kong Listing Rules, to act as the joint company secretary and assist Mr. Yang in discharging his duties as our company secretary. The appointment of Mr. Chiu Ming King as one of our joint company secretaries has commenced on March 1, 2016 and will end on the expiry of the three-year period after the Listing Date. We will also implement procedures to provide Mr. Yang with appropriate training in order to enable him to acquire such necessary experience upon the expiry of the three-year period.

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 requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The waiver will be revoked if Mr. Chiu ceases to be the other joint company secretary and we fail to appoint another qualified joint company secretary to assist Mr. Yang during the three years after the Listing Date. Upon the expiry of the three-year period, we will re-evaluate whether Mr. Yang satisfies the qualifications specified in Rules 3.28 and 8.17 of the Hong Kong Listing Rules.

CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain transactions, which will constitute non-exempt continuing connected transactions under the Listing Rules upon the Listing. We have applied for, and the Stock Exchange has granted us, a waiver pursuant to Rule 14A.105 of the Listing Rules from the strict compliance with the announcement, circular and independent shareholders' approval requirements under Rules 14A.35 and 14A.36 of the Listing Rules regarding the Entrusted Operation Framework Agreement. The details of such non-exempt continuing connected transactions and corresponding waiver are set out in the section headed "Connected Transactions" in this prospectus.

WAIVER IN RELATION TO SUBSCRIPTION OF H SHARES BY CERTAIN EXISTING SHAREHOLDERS

Rules 10.04, 10.03(1) and 10.03(2) of the Listing Rules provide that a person who is an existing shareholder of the issuer may only subscribe for or purchase securities for which listing is sought and which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the following conditions are fulfilled: (i) no securities are to be offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Listing Rules is achieved. Paragraph 5(2) of Appendix 6 to the Listing Rules provides, among other matters, that unless with the prior written consent of the Hong Kong Stock Exchange, no allocations to directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Listing Rules are fulfilled.

Kunming Industrial Development, a wholly-owned subsidiary of Kunming IDI which is an existing shareholder of the Company, has entered into a cornerstone investment agreement with us to subscribe for, as cornerstone investor, an amount of up to US$29.7 million (equivalent to up to 53,542,000 Offer Shares, assuming an Offer Price of HK$4.31 (being the mid-point of the indicative Offer Price range)). For details, please refer to the section headed "Cornerstone Investors".

Kunming Industrial Development is a company established under the laws of the PRC and is principally engaged in the business of urban and rural development, affordable housing development and management, and other property and infrastructure project development and management. It is wholly owned by Kunming IDI, a company established under the laws of the PRC, which is principally engaged in the business of investment in and management of projects commissioned by the government, asset management, industrial development and land development. Kunming IDI is an existing Shareholder of our Company, which holds 2,738,000 Domestic Shares of our Company, representing approximately 0.38% of our total issued share capital, as at the date of this prospectus.

Kunming SAMO is expected to subscribe for the Offer Shares as a placee investor under the International Offering.

Kunming SAMO is a company established under the laws of the PRC, which is principally engaged in the holding of equity interests of state-owned enterprises and management of state-owned assets. It is ultimately owned by Kunming SASAC and is an existing Shareholder of our Company, which holds 2,738,000 Domestic Shares of our Company, representing approximately 0.38% of our total issued share capital, as at the date of this prospectus.

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 the requirements under Rule 10.04 of the Listing Rules, and its consent under Paragraph 5(2) of Appendix 6 to, the Listing Rules to permit the allocation of H Shares to each of (i) Kunming Industrial Development as a cornerstone investor and (ii) Kunming SAMO as a placee investor to subscribe for, and for us to place to each of them, H Shares under the International Offering respectively, subject to the following conditions:

1. ***Each of Kunming IDI and Kunming SAMO is interested in less than 5.0% of our Company's voting rights before the Listing:*** as of the Latest Practicable Date, Kunming IDI and Kunming SAMO are interested in approximately 0.38% and 0.38% of the existing issued share capital of our Company.

2. Each of Kunming IDI (together with its wholly-owned subsidiary, Kunming Industrial Development) and Kunming SAMO (i) is a genuine investor who operates independently of Kunming SASAC; and (ii) has no access to material non-public information regarding the proposed listing of H Shares and no influence over the allocation process of the proposed listing of H Shares.

3. ***Neither Kunming IDI (together with its wholly-owned subsidiary, Kunming Industrial Development) nor Kunming SAMO is a connected person or a close associate of the Company:*** each of Kunming IDI and Kunming SAMO currently holds less than 0.4% of the issued share capital of our Company. Upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Kunming IDI (together with its wholly-owned subsidiary, Kunming Industrial Development) and Kunming SAMO are expected to hold, directly or indirectly, not more than approximately 6.0% and 4.7% of the enlarged issued share capital of our Company, respectively.

4. None of the existing Shareholders has the power to appoint directors or any other special rights under the articles of association of the Company or any other agreements, or by law, which other Shareholders do not have.

5. ***Allocation to Kunming Industrial Development and Kunming SAMO will not affect our Company's ability to satisfy the public float requirement:*** as none of Kunming

IDI (together with its wholly-owned subsidiary, Kunming Industrial Development) and Kunming SAMO is or will become connected persons of our Company, the participation of Kunming Industrial Development and Kunming SAMO in the Global Offering as a cornerstone investor and as investor in the International Offering will not affect the minimum 25% public float requirement. The shares to be held by Kunming Industrial Development and Kunming SAMO will be considered as part of the public float.

6. We have confirmed to the Stock Exchange that, (i) no preferential treatment has been, nor will be, given to Kunming IDI (together with its wholly-owned subsidiary, Kunming Industrial Development) and Kunming SAMO and/or its close associates by virtue of its relationship with our Company other than the preferential treatment of assured entitlement to Kunming Industrial Development under a cornerstone investment following the principles set out in Hong Kong Stock Exchange Guidance Letter-GL51-13; (ii) the cornerstone investment agreement to be entered into between our Company and Kunming Industrial Development does not contain any material terms which are more favorable to Kunming Industrial Development than those in other cornerstone investment agreements; and (iii) each of Kunming IDI (together with its wholly-owned subsidiary, Kunming Industrial Development) and Kunming SAMO has independent decision making procedures in place regarding its management and investment and have made its investment decision in subscribing for the H Shares independently, and neither Kunming SASAC or the Controlling Shareholder are expected to exert influence over Kunming IDI (together with its wholly-owned subsidiary, Kunming Industrial Development) and Kunming SAMO making such investment decision.

7. Based on our confirmation above and the discussion with our Company and the Joint Bookrunners, the Sole Sponsor, to the best of its knowledge and belief, has no reason to believe that any preferential treatment has been or will be afforded to (i) Kunming Industrial Development and/or its close associates in the IPO allocation as cornerstone investor (other than the preferential treatment of assured entitlement to Kunming Industrial Development under a cornerstone investment following the principles set out in Hong Kong Stock Exchange Guidance Letter-GL51-13) and (ii) Kunming SAMO and/or its close associates as placee investor under the International Offering, respectively, by virtue of their relationship with our Company. In addition, the Sole Sponsor confirms that Kunming SASAC will not participate in any decision in relation to the allocation process in the Global Offering; therefore, Kunming SASAC is in fact not in a position to exert any direct influence over the allocation process in the Global Offering.

Details of the allocation will be disclosed in the allotment results announcement of our Company on or around Wednesday, April 5, 2017, including (i) the name of, the number of H Shares allocated to, and the percentage of Offer Shares and/or total issued share capital taken up by Kunming Industrial Development and Kunming SAMO, and (ii) lock-up arrangement for Kunming Industrial Development.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. The Directors, having made all reasonable inquiries, confirm that, to the best of their knowledge and belief, the information contained 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 this prospectus misleading.

CSRC APPROVAL

We have obtained the approval from the CSRC for the Global Offering and the application to list our H Shares on the Hong Kong Stock Exchange on Tuesday, November 15, 2016. In granting such approval, the CSRC bears no responsibility for our financial soundness, or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about the Price Determination Date, subject to determination of the pricing of the Shares. For further details about the Underwriters and the Underwriting Agreements, please see the section headed "Underwriting" in this prospectus.

The H 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 Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Under any circumstances, neither the delivery of this prospectus nor any subscription or acquisition made pursuant to this prospectus shall create any implication or representation that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) on or around Wednesday, March 29, 2017 or such later date as may be agreed upon between the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders), and in any event no later than Friday, March 31, 2017. If the Joint Global Coordinators (on behalf of the Underwriters) and us (on behalf of ourselves and the Selling Shareholders) are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

No action has been taken to permit an offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription.

The distribution of this prospectus and/or the related 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. The Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

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, our H Shares including: (i) any H Shares which may be issued by our Company pursuant to the Global Offering and upon the exercise of the Over-allotment Option; and (ii) the H Shares converted from Domestic Shares and to be sold under the Global Offering. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, April 6, 2017.

Except as otherwise disclosed in this prospectus, no part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our H Share register 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 will be subject to Hong Kong stamp duty. Please see the section headed "Appendix III — Taxation and Foreign Exchange" to this prospectus.

Dividends Payable to Holders of H Shares

Unless determined otherwise by us, 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 H Share Shareholders' own risk, to the registered address of holders of H Shares.

Professional Tax Advice Recommended

Applicants for the Hong Kong Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the H Shares. It is emphasized that neither we nor the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, nor their respective directors, officers, employees, advisers, agents or representatives nor any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding, disposal of, dealing in, or exercise of any rights in relation to, the H Shares.

Registration of Subscription, Purchase and Transfer of H Shares

We have instructed the H Share Registrar, and it 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 the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with us and each of our Shareholders, and we and each Shareholder also agree, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;

(ii) agrees with us, each of our Shareholders, Directors, Supervisors and senior management, and we, acting for ourselves and for each of our Directors, Supervisors and senior management and each of our Shareholders agree, to submit all disagreements and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws, rules and regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any submission 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;

(iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and

(iv) authorizes us to enter into a contract on his behalf with each of our Directors, Supervisors and senior management whereby such Directors, Supervisors and senior management 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 (as such term is defined in the Listing Rules) of any of our Directors or an existing Shareholder or a nominee of any of the foregoing.

Procedure for Application for Hong Kong Offer Shares

The procedure for applying for Hong Kong Offer Shares is set forth in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

For details of the structure of the Global Offering, including its conditions, please see the section headed "Structure of the Global Offering" in this prospectus.

OVER-ALLOTMENT AND STABILIZATION

For details of the arrangements relating to the Over-allotment Option and the stabilization, please see the section headed "Underwriting" in this prospectus.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance 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 as determined by HKSCC. 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. Investors should seek the advice of their stockbroker or other professional advisers for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into U.S. dollars and Hong Kong Dollars at specified rates. No representation is made that the amounts denominated in one currency could actually be converted into another currency at the rates indicated or at all. Unless we indicate otherwise, (i) the translation of Renminbi into U.S. dollars was made at the rate of RMB6.91 to US$1.00, the median rate set by PBOC for foreign exchange transactions prevailing on March 10, 2017; (ii) the translation of Hong Kong Dollars into U.S. dollars was made at the rate of HK$7.77 to US$1.00, the noon buying rate in effect on March 10, 2017 as set forth in the H.10 weekly statistical release of the Federal Reserve Board dated March 13, 2017; and (iii) the translation of Renminbi into Hong Kong Dollars was made at the rate of RMB0.89 to HK$1.00, the median rate set by PBOC for foreign exchange transactions prevailing on March 10, 2017. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

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 and for which no official English translation exists are unofficial translations for your reference only.

ROUNDING

In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions or hundred millions, certain amounts of less than one hundred, one thousand, ten thousand, one million or a hundred million, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million or hundred million, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth or hundredth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Ms. Guo Yumei (郭玉梅)	No. 3, 14/F No. 134 Shulin Road Xishan District Kunming Yunnan PRC	Chinese
Mr. Luo Yun (羅雲)	No. 401, Block 1, Unit 1 390 Xinwen Road, Lujiaying Xishan District Kunming Yunnan PRC	Chinese
Non-executive Directors		
Mr. Zeng Feng (曾鋒)	No. 1303 Xinan Linhang Mansion 253 Qingnian Road Wuhua District Kunming Yunnan PRC	Chinese
Ms. Song Hong (宋紅)	No. 20, Chuixiao Lane Middle Renmin Road Panlong District Kunming Yunnan PRC	Chinese
Independent Non-executive Directors		
Mr. Wong Man Chung Francis (黃文宗)	Flat G, 14/F, Tower 23 South Horizons Ap Lei Chau Hong Kong	Chinese

Name	Residential Address	Nationality
Mr. Yin Xiaobing (尹曉冰)	No. 13, Block 5 11 Dongjiawan Road Guandu District Kunming Yunnan PRC	Chinese
Mr. He Xifeng (何錫鋒)	No. 202, Block 25, Unit 4 Huadu Garden Guangfu Road Xishan District Kunming Yunnan PRC	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Mr. Na Zhiqiang (那志強)	No. 202, Block 1, Unit 2 191 Xinwen Road Wuhua District Kunming Yunnan PRC	Chinese
Mr. Yao Jianhua (姚建華)	No. 706, Block 1, Unit 1 134 Shulin Road Xishan District Kunming Yunnan PRC	Chinese
Mr. Shao Wei (邵偉)	No. 1101, Block A Nanzhanxincun Linjiangyuan Guandu District Kunming Yunnan PRC	Chinese

Please see the section headed "Directors, Supervisors and Senior Management" in this prospectus for further details of our Directors and Supervisors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	Morgan Stanley Asia Limited 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Joint Global Coordinators	Morgan Stanley Asia Limited 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong 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 Zhongtai International Securities Limited 7th Floor, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Joint Bookrunners and Joint Lead Managers	Morgan Stanley Asia Limited *(in relation to the Hong Kong Public Offering only)* 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong Morgan Stanley & Co. International plc *(in relation to the International Offering only)* 25 Cabot Square Canary Wharf London E14 4QA United Kingdom

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

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1 Information contained in this website does not form part of this prospectus.

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China Merchants Bank
Kunming Shijicheng Sub-branch
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Century Golden Recourses
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PRC

Certain facts, information, statistics and data set out in this section have been extracted from various government publications, market data providers, other independent third party sources and the Frost & Sullivan Report, which was commissioned by us, unless otherwise indicated. We believe that the sources of this information are appropriate sources for such information and have exercised reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us or any of our respective directors, officers, representatives or affiliates, the Selling Shareholders, the Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Sole Sponsor or any other party involved in the Global Offering and no representation is given as to its accuracy or correctness. Accordingly, such information should not be unduly relied upon. Unless otherwise indicated, all data in this section are derived from the Frost & Sullivan Report.

OVERVIEW OF CHINA'S WATER SECTOR

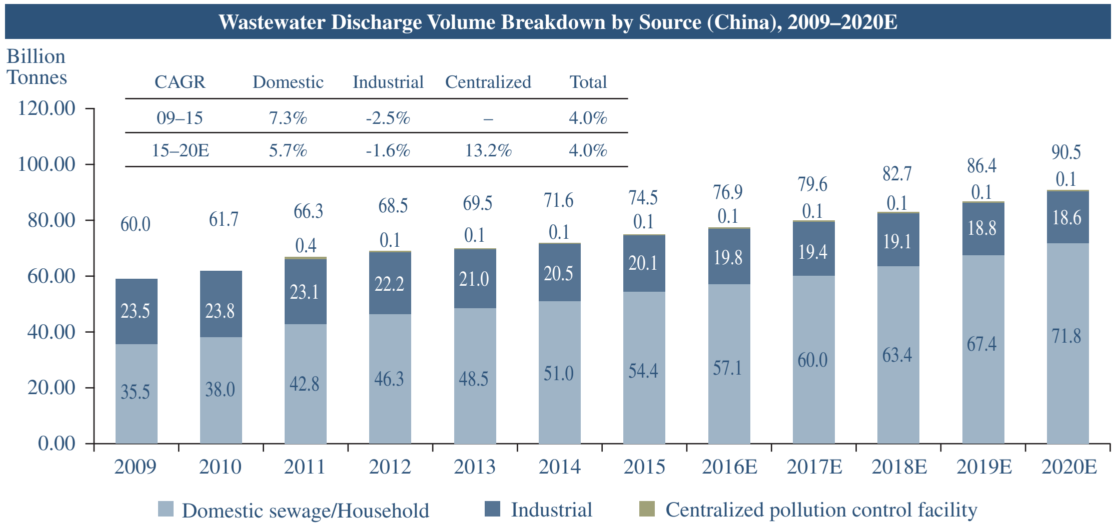
Water Resources in China

According to Frost & Sullivan, China is one of the most water-deficient countries in the world. In 2015, China's average per capita freshwater was 2,059 m^3, less than one-third of the global average. From 2014 to 2015, total water resources in China remained at around 2.8 billion m^3. In addition, water resources are unevenly distributed in China, which further exacerbates China's water shortage. Pollution has further aggravated China's water shortage. According to the Ministry of Environmental Protection (or "**MEP**") of the PRC, surface water faced contamination in 2014, while groundwater pollution remained severe. Groundwater rated "bad" or "very bad" reached 61.5% in 2014.

Facing the widespread water pollution issue, the Chinese government has revised and issued stricter wastewater discharge standards for major polluting industries. In the meantime, large-scale lake remediation has been continuously conducted to clean the polluted natural resources. Moreover, the Chinese government issued the 13th Five-Year Wastewater Treatment Plan in 2016, stipulating discharge standards and recycling requirements that urban wastewater treatment facilities should reach by the end of 2020. Frost & Sullivan expects the 13th Five-Year Wastewater Treatment Plan to underpin significant growth in China's municipal water industry.

Wastewater Discharge in China

The discharge volume of domestic sewage has continued to grow since 2009, increasing from 35.5 billion m^3 for 2009 to 54.4 billion m^3 for 2015, representing a CAGR of 7.3%. Based on the continuous trend of urbanization, growing population and economic development, domestic sewage volume is expected to grow at a 5.7% CAGR from 2015 to 2020.



Source: Frost & Sullivan

Urbanization is one of the factors that contribute to the increased discharge volume of domestic sewage. According to Frost & Sullivan, China's urban population grew from 669.8 million in 2010 to 793.0 million in 2016. In the same period, China's urbanization rate saw an increase of 7.4% from 49.9% to 57.3%. Frost & Sullivan estimates that by 2020, Chinese urban population is likely to reach 877.1 million and Chinese urbanization rate to reach 62.5%. This urbanization trend is likely to lead to an increase in demand for clean water and wastewater treatment in urban areas, which in turn would increase the growth potential of the municipal wastewater treatment industry.

Industry Chain of China's Municipal Water Industry

According to Frost & Sullivan, the industry chain of China's municipal water industry primarily consists of three key components: production and supply of running water from qualified raw water sources; treatment of municipal wastewater collected through municipal pipelines; and further treatment of wastewater effluent for reuse.

Running water suppliers pay tariff to and obtain raw water from raw water producers. Some running water suppliers also obtain raw water from natural resources such as rivers and lakes. Then running water is delivered to end users through pipelines. Wastewater treatment companies usually collect wastewater treatment fees from two sources, namely government purchase, where payments are made by local governments directly to wastewater treatment companies, and public procurement, where the relevant tariffs are collected by running water companies from running water users and then transferred to wastewater treatment companies. After the effluent from wastewater treatment is further treated through a series of processes, reclaimed water is delivered to end users, primarily for irrigation, roadway sanitation, and carwash, amongst others.

Market Drivers of China's Municipal Water Industry

Growing demand for water consumption and increasing wastewater discharge: The increase in water consumption and wastewater discharge are directly driven by the development of China's economy, especially the rise of China's urbanization rate. Frost & Sullivan believes that China's urbanization rate will strongly stimulate the demand for municipal water supply and wastewater treatment. Meanwhile, the Chinese population's disposable income is also expected to rise. According to Frost & Sullivan, in 2015, per capita freshwater consumption in the U.S. was about three times larger than that of China, and per capita freshwater consumption in OECD countries was also significantly larger than that of China. As a result of China's rapid urbanization, increase in population and disposable income, fresh water consumption and wastewater discharge will continue to grow.

Legislation and policy support: China's municipal water industry enjoys strong and sustained government support. The Chinese government has issued a series of incentive policies including the 13th Five-Year Wastewater Treatment Plan issued in December 2016. According to the estimate of the School of Environment of Renmin University of China, an investment of approximately RMB564.4 billion is needed to achieve the targets of the 13th Five-Year Wastewater Treatment Plan. The investments in new wastewater treatment facilities, upgraded and renovated wastewater treatment facilities, new or renovated sludge safe disposal and treatment facilities, new reclaimed water production facilities and early rainwater pollution treatment facilities will amount to RMB150.6 billion, RMB43.2 billion, RMB29.4 billion, RMB15.8 billion and RMB8.1 billion, respectively, according to the 13th Five-Year Wastewater Treatment Plan. The Outline of the 13th Five-Year Plan on Economic and Social Development (《國民經濟和社會發展十三五規劃綱要》) listed environmental protection industry as one of the key areas for further development, and specified that the treatment rates of municipal wastewater in cities and towns are to reach 95% and 85%, respectively, by 2020. The Notice on Promoting Reform of Water Tariff, Water Conservation and Protection of Water Resource (《關於推進水價改革促進節約用水保護水資源的通知》) and the Guidance on Accelerating the Establishment of the System of Tiered Water Tariff of Urban Residents (《關於加快建設完善城鎮居民用水階梯價格制度的指導意見》) urged municipalities to implement tiered water tariff systems to provide greater profit margins to municipal water service operators. Furthermore, the Remarks on the Promotion of PPP (Public-Private-Partnership) Model in Water Pollution Prevention and Treatment Industry (《關於推進水污染防治領域政府和社會資本合作的實施意見》) promoted the Public-Private-Partnership model in the wastewater treatment sector. The Chinese government has also issued other incentive policies, such as tax concessions and fiscal subsidies.

Stricter water quality standard and public's rising awareness of environmental protection: The Chinese government is likely to further tighten the requirements for water quality in the future for better control of water pollution in China, according to Frost & Sullivan. According to the 13th Five-year Wastewater Treatment Plan, by the end of 2020, all municipal wastewater treatment plants are required to fulfill the discharge standards or recycling requirements specified for the types of facilities. For example, under the Action Plan for Water

Pollution Prevention and Control ("**Action Plan**") (水污染防治行動計劃) (also known as "水十條") issued by the State Council on April 2, 2015, municipal wastewater treatment facilities located in certain sensitive areas, such as major lakes, reservoirs and offshore waters, are required to reach Class I Standard A discharge standard by 2017. According to the 13th Five-Year Wastewater Treatment Plan, the capacity of upgraded and renovated municipal wastewater treatment facilities will reach 42.20 million cubic meters per day, among which, the facilities in cities and counties will have capacities of 36.39 million cubic meters per day and 5.81 million cubic meters per day, respectively, in the 13th Five-Year-Period. As a result, municipal water companies will need to increase their investments and upgrade to advanced treatment technology. Rising public awareness of environmental protection in China has also led to greater public attention to water quality, and the Chinese government is likely to increase its investments and efforts in combating water pollution.

Municipal Water Industry Outlook in the PRC

China's municipal water industry used to be highly fragmented. In recent years, a few integrated, large-scale water companies expanded their business into new regions through mergers and acquisitions. Frost & Sullivan believes that companies with a good reputation, brand name, advanced technologies, and good financial health are more likely to benefit from larger operation scale and higher efficiency and speed up their pace of expansion through the acquisition of smaller operators, leading to a higher concentration rate in this industry.

According to Frost & Sullivan, China's current water tariff still remains at a relatively low level, and there is still room for tariff increases. In addition, the Chinese government is likely to promote upgrades of existing wastewater treatment plants, which would require further increase of water tariffs.

13th Five-year Wastewater Treatment Plan aims at building a better municipal water supply system across the country. Total investment into construction sector and operation sector of the wastewater treatment industry is expected to rise from RMB0.95 trillion in the 12th Five-Year-Period to RMB1.26 trillion in the 13th Five-Year-Period.

In addition, the number of municipal wastewater treatment plants may increase in small- and medium-sized cities and towns urbanization, and wastewater reuse and reclamation rate will also increase due to the rising need to save costs and protect the environment. Frost & Sullivan estimates that at least 20,000 small wastewater treatment facilities are needed, and that reclaimed water use will continue to grow rapidly.

Electricity Supply and Electricity Price

Electricity costs represent a large percentage of the production costs for water enterprises. For large industrial users, the electricity retail tariff consists of a fixed charge and a variable charge; the variable charge of the tariff is approximately RMB0.5/kWh, which has been in effect since 2011. Beginning in 2016, pursuant to the Circular Issued by the Yunnan Provincial Pricing Bureau on the NDRC's Paper Regarding the Reduction of On-grid Coal-power Tariff and Retail Tariffs for General Industrial and Commercial Users (雲南省物價局轉發國家發展改革委關於降低燃煤發電上網電價和一般工商業用電價格文件的通知), the Company is allowed to purchase electricity directly from the power producers. The table below sets out the reference electricity retail tariff(1) of the variable charge for large industrial users in Yunnan Province, which include water enterprises such as the Company, since 2011.

Electricity Retail Tariff of the variable charge for Large Industrial Users implemented since December 2011 in Yunnan Province (RMB/kWh)

1–10kV	35–110kV	110kV	>220kV
0.516	0.492	0.480	0.468

Source: NDRC, Frost & Sullivan

OVERVIEW OF CHINA'S MUNICIPAL WASTEWATER TREATMENT INDUSTRY

According to Frost & Sullivan, the municipal wastewater treatment industry in China is rapidly developing, due to increases in government investment, infrastructure, funding and efficiency and enhanced discharge standards.

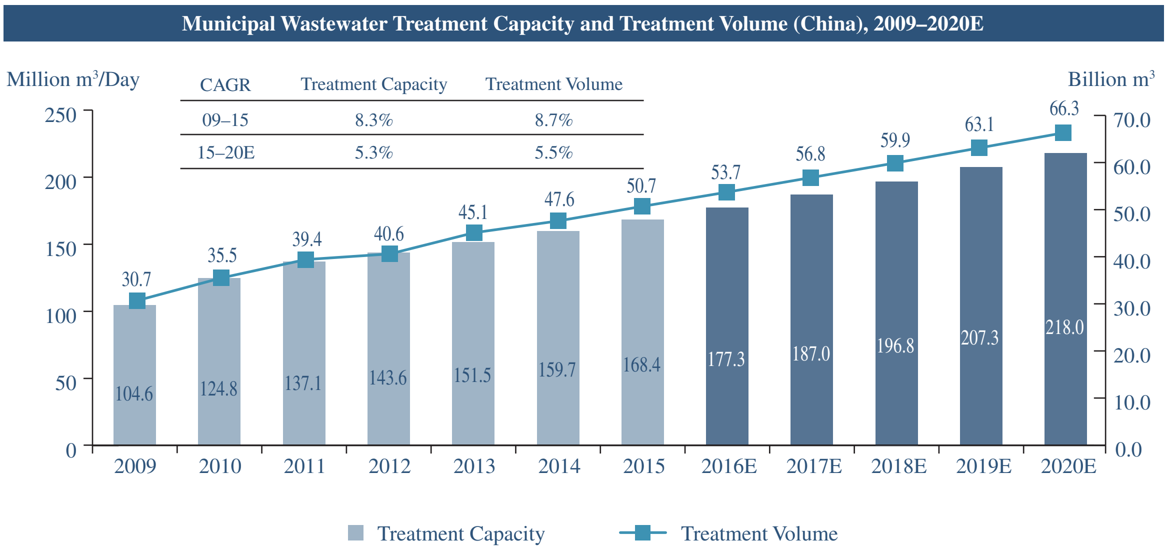
Municipal Wastewater Treatment Capacity in China

The total capacity of municipal wastewater treatment plants in the PRC has been increasing over the past few years. According to Frost & Sullivan, the total capacity of municipal wastewater treatment plants in China increased from 104.6 million m^3 per day in 2009 to 168.4 million m^3 per day in 2015. From 2015 to 2020, capacity of China's municipal wastewater treatment is expected to rise from 168.4 million m^3 per day to 218.0 million m^3 per day, at a CAGR of 5.3%. Treatment volume may reach 66.3 billion m^3 by 2020.

Note:

(1) Actual tariff differ depending on to the time of the day and month of the year.

According to Frost & Sullivan, China's municipal wastewater treatment capacity still has room for expansion, particularly in remote or under-developed areas. The diagram below shows the historical and forecasted treatment capacities and treatment volumes:

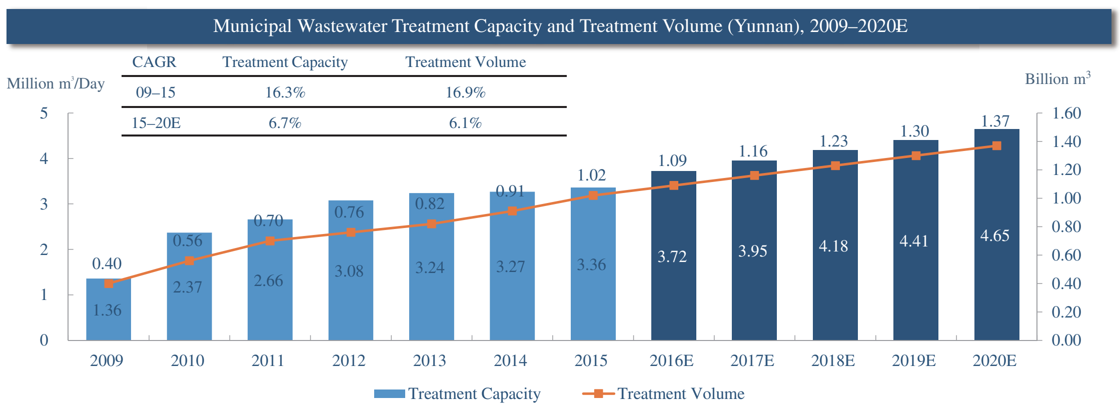


Source: MOHURD, Frost & Sullivan

Capacity and Volume of Yunnan Province's Municipal Wastewater Treatment Industry

Generally, infrastructure in Yunnan Province is less developed than those in the coastal regions. Urbanization rates of Yunnan and Guizhou Provinces are lower than those of the provinces in Eastern China. Rapid developments of economy and urbanization drive the development of the municipal wastewater treatment industry in Yunnan and Guizhou Provinces. From 2009 to 2015, the treatment capacity of municipal wastewater in Yunnan Province, the PRC, rose sharply from 1.36 million m^3 per day to 3.36 million m^3 per day, at a CAGR of 16.3%. Treatment volume increased from 0.40 billion m^3 to 1.02 billion m^3, at a CAGR of 16.9%.

According to Frost & Sullivan, the growth rate of Yunnan's municipal wastewater treatment industry is expected to be higher than China's average level for the forecast period. By 2020, treatment capacity is expected to rise to 4.65 million m^3 per day, based on a CAGR of 6.7% from 2015, as compared to 5.3% for the nation. Treatment volume is expected to increase from 1.02 billion m^3 in 2015 to 1.37 billion m^3 in 2020, at a CAGR of 6.1%, as compared to 5.5% for the nation. The diagram below shows the historical and forecasted treatment capacity of municipal wastewater treatment plants in Yunnan Province, the PRC:



Source: MOHURD, Frost & Sullivan

Kunming is the largest city by population and the most economically developed in Yunnan Province, the PRC. However, Kunming has very limited sources of natural water supply as compared to the national average and is facing a serious water pollution problem. Over the past years, municipal wastewater treatment capacity in Kunming had increased rapidly. According to Frost & Sullivan, the Company is the largest operator of municipal wastewater treatment plants in Kunming, accounting for approximately 94.4%* of the city's total treatment capacity as of December 31, 2015. Meanwhile, the total treatment volume in Kunming grew from 242 million m^3 in 2009 to 457 million m^3 in 2015, representing a CAGR of 13.5%.

Note:

* The remaining 5.6% is comprised of municipal wastewater treatment service providers who had been operating in Kunming prior to the granting of concession right to the Company by the Kunming municipal government in 2011. See "Business — Our Competitive Strengths — Leading enterprise in the Yunnan wastewater treatment industry with a strong track record of expansion in China" for details.

Major Wastewater Treatment Technologies Overview

Wastewater treatment utilizes physical, chemical and biological processes to either remove pollutants or reduce them into non-toxic substances. It can be categorized into primary treatment, secondary treatment, and advanced treatment. Primary treatment usually involves a physical process that settles and removes suspended substances. Secondary treatment involves biological treatment, where the activated sludge process and other technologies are used to remove organic wastes and other pollutants such as nitrogen and phosphorus. Advanced treatment further removes pollutants that have not been removed in secondary treatment.

Currently, biological treatment accounts for more than 90% of all methods for municipal wastewater treatment in China. Other methods include physical treatment, chemical treatment, or physical-chemical treatment. Biological treatment is the preferred method for removing key pollutants in wastewater. There are five major technologies used for biological treatment, namely, activated sludge, oxidation ditch, A/O, A^2/O and SBR. The latter four technologies are upgrades derived from the traditional activated sludge process. The activated sludge process, along with its derivatives, is a mature technology and has a dominant position in the Chinese municipal wastewater treatment market, accounting for 83.9% of the market in 2014 by number of projects. The activated sludge process is also expected to be the mainstream technology in the coming years.

Competitive Landscape

According to Frost & Sullivan, the Chinese municipal wastewater treatment market primarily consists of three types of players:

- The majority share of the market is held by state-owned enterprises (or "**SOEs**"), which are solely or majority owned by the central or local governments. These companies' SOE-status often facilitates their bidding for wastewater projects from local governments. Major SOE players include Beijing Enterprises Water Group Limited, Beijing Capital Co., Ltd. and the Company.

- Privately-owned companies with headquarters and main operations in the PRC are gradually becoming important players in the market. Leading private wastewater treatment companies include Chongqing Kangda Environment Protection Industry (Group) Co., Ltd. and Anhui Guozhen Environmental Protection and Energy Saving Technology Co., Ltd.

- There are also a few foreign invested companies in the market, such as Veolia Environment, Sino French Water Development Co. Ltd. and Berlinwasser Holding AG.

Competitive Landscape in Yunnan Province

According to Frost & Sullivan, Yunnan Province's municipal wastewater treatment business is dominated by local companies and highly concentrated. The top three market players are the Company, Yunnan Water Investment Co., Limited and Beijing Enterprises Water Group, and together they account for 62.3% of the total capacity of Yunnan Province. The Company ranked first with a 34.0% share. Both the Company and Yunnan Water Investment Co., Limited are based in Yunnan Province, and both Yunnan Water Investment Co., Limited and Beijing Enterprises Water Group are SOEs listed on the Hong Kong Stock Exchange. The remaining 37.7% of the market is relatively fragmented and is made up by around 20 to 30 players, most of whom are small-sized local companies.

Challenge and Threats to the Industry

The prospect of the macro-economy in Yunnan Province poses potential threat to the demand for wastewater treatment as the development of the overall economy in Yunnan Province directly impacts on the level of business activities and thus the volume of wastewater discharge. Changing government policies and their level of implementation are also important to the prospects of the industry, as supporting governmental policy is a key driver of the wastewater treatment business in Yunnan Province.

Barriers of Entry into the Industry

Availability of Capital. Wastewater treatment is capital-intensive. The payback period of the investment ranges from five to over 10 years.

Regional Barrier. The water industry, especially the municipal wastewater treatment industry, are regional. Local governments have strong influence over the development of the local municipal water industry. A concession contract is usually an exclusive agreement and the incumbent is generally favored for the renewal of the contract which can bar new participants from expanding into a new region.

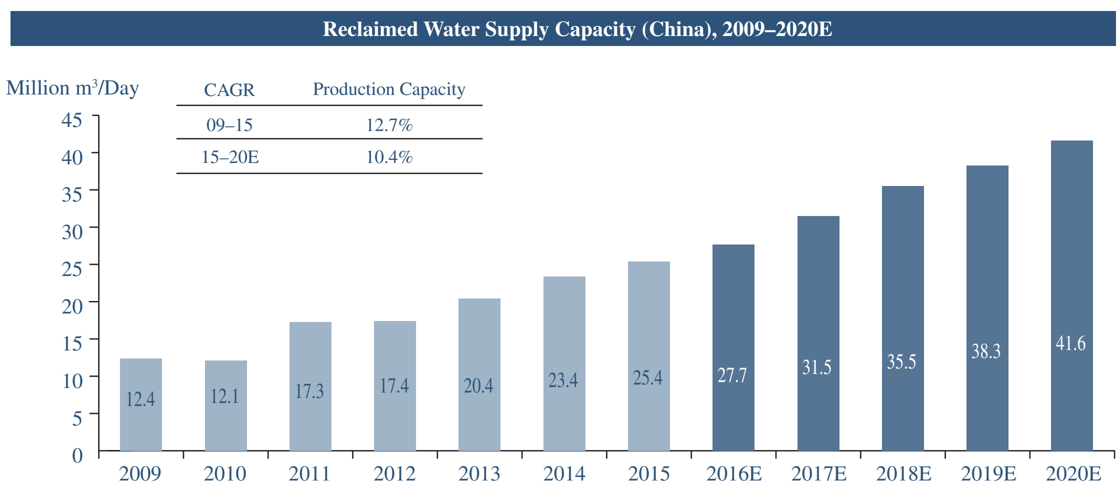
Operation and Management Capabilities. Operation and management of wastewater treatment plants is complex and needs professional management personnel who have rich experience and expertise. New participants may face a steep learning curve.

OTHER WATER SERVICES

Overview of China's Reclaimed Water Industry

China faces water scarcity and its per capita water resource are significantly lower than the global average. Meanwhile, as a result of technological and operational limitations, use of reclaimed water in China has remained at a low level. Strengthening policy incentives and improving technology are expected to promote China's reclaimed water production.

According to Frost & Sullivan, the total reclaimed water production capacity in China grew from 12.4 million m^3 per day in 2009, and to 25.4 million m^3 per day in 2015, representing a CAGR of 12.7%. Going forward, capacity is expected to grow at an estimated CAGR of 10.4% from 2015 to 2020. By 2020, total reclaimed water production capacity in China is forecasted to reach 41.6 million m^3 per day. The chart below sets forth the historical and forecasted reclaimed water production capacity of China from 2009 to 2020:



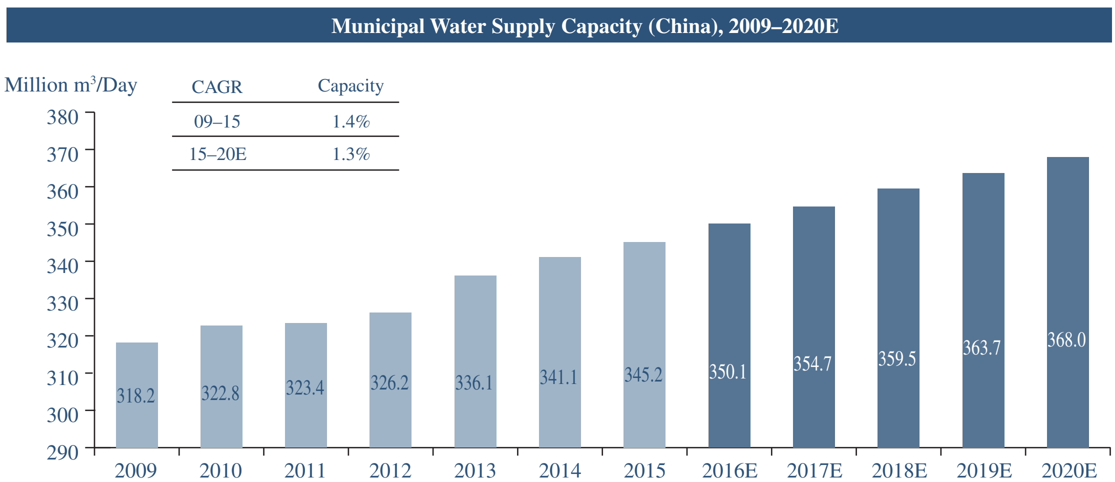
Source: Frost & Sullivan

The Yunnan government strongly supports the reclaimed water industry. According to Frost & Sullivan, its total reclaimed water production capacity grew from 17.0 thousand m^3 per day in 2010, to 109.0 thousand m^3 per day in 2015. The total reclaimed water production capacity in Yunnan Province, the PRC, is expected to reach 272.0 thousand m^3 per day in 2020, doubling that in 2015.

Overview of China's Municipal Water Supply Industry

The municipal water supply industry consists of raw water production and supply, water treatment and distribution of running water. Water suppliers construct facilities to obtain raw water from natural water sources, such as rivers, lakes and seas, and then deliver raw water to running water treatment plants, which filtrate and purify raw water into running water.

According to Frost & Sullivan, municipal running water supply capacity in China grew from 318.2 million m^3 per day in 2009 to 345.2 million m^3 per day in 2015, at a CAGR of 1.4%. The coverage of municipal running water supply has reached nearly 95% in cities and 85% in counties. Due to continuous urbanization and construction of water supply facilities in county-level regions, the national municipal running water supply capacity is expected to keep growing at a rate of 1.3% in the next 5 years, reaching 368.0 million m^3 per day by 2020. The chart below sets forth the historical and forecasted municipal water supply capacity of China from 2009 to 2020:



Source: MOHURD, Frost & Sullivan

In Yunnan Province, the PRC, municipal running water supply capacity has grown from 4.3 million m^3 per day in 2009 to 5.5 million m^3 per day in 2015, at a CAGR of 4.2%. Meanwhile, the municipal running water supply volume increased from 0.92 billion m^3 in 2009 to 1.19 billion m^3 in 2015, a CAGR of 4.4%.

The relocation of manufacturing industry to China's western provinces and the accelerated urbanization in these regions are expected to boost the growth of urban population and GDP, which in turn will increase the demand for municipal running water supply. In addition, the government attaches high importance to the development of running water supply in western China. As a result, Frost & Sullivan expects Yunnan Province's municipal running water supply capacity to grow to 6.5 million m^3 per day and the total supply volume to grow to 1.48 billion m^3 for 2020.

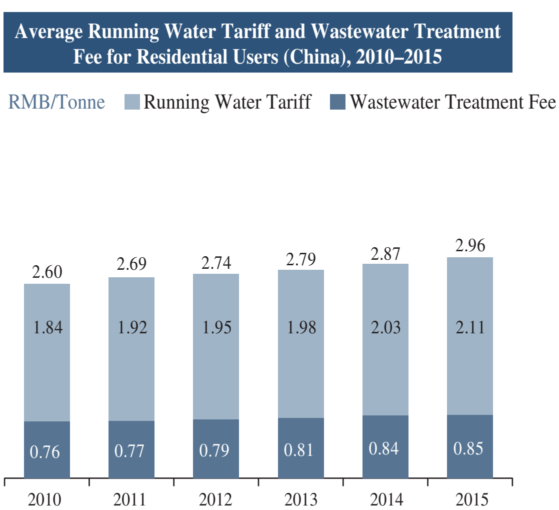
PRICING MECHANISM OF WATER TARIFF AND WASTEWATER TREATMENT FEE

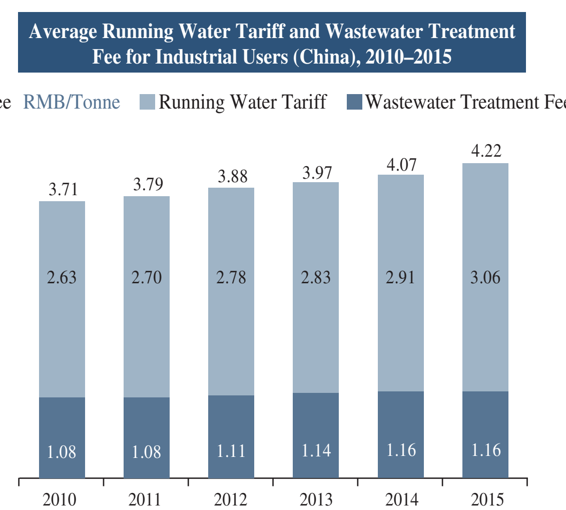
Water tariff is usually set by the pricing departments of the relevant local governments and its adjustment often requires public hearings.

Wastewater treatment tariff is usually collected as part of the running water tariff by running water suppliers and then transferred to wastewater treatment operators. A wastewater treatment operator collects the total wastewater treatment tariff, which is typically calculated to cover the daily operational costs and to provide a reasonable return on the operator's investment. A total wastewater treatment tariff consists of two components: public procurement and government purchases. For market-oriented projects such as BOT and BOO projects, wastewater treatment operators often sign with local governments or their designees concession contracts in which both the wastewater treatment tariff and its adjustment mechanism are specified.

Running water tariff is the direct income of running water supply companies. It is the core part of water tariff. Running water tariff consists of water supply cost, expenses, taxes and profit. According to the Measures for the Administration on the Prices of Municipal Water Supply (《城市供水價格管理辦法》) promulgated by the NDRC and the former Ministry of Development on September 23, 1998 and amended on November 29, 2004, when determining the running water tariff, the government should examine the operating cost and provide a profit margin of 8% to 10%.

The charts below set forth the average water tariffs in China's major cities:





Source: H2O China, Frost & Sullivan

Water tariffs have experienced growth in the past decade. Wastewater treatment fee for residential users rose from RMB0.76 per m^3 in 2010 to RMB0.85 per m^3 in 2015 and running water tariffs increased from RMB1.84 per m^3 in 2010 to RMB2.11 per m^3 in 2015. Water tariffs for industrial users experienced a higher growth. Frost & Sullivan believes wastewater treatment tariff will continue to grow.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan to conduct an analysis of the PRC water treatment industry, the wastewater treatment market and other economic data and to prepare the Frost & Sullivan Report. We have agreed to pay a fee of approximately RMB750,000 for the Frost & Sullivan Report, which will be fully paid prior to the Listing. Our Directors are of the view that the payment of the fee does not affect the fairness of the conclusions drawn in the Frost & Sullivan Report. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecommunication.

The Frost & Sullivan Report includes information on China's municipal water supply industry, China's municipal wastewater treatment industry and other economic data. Frost & Sullivan utilized both primary and secondary research and attempted to cross check each significant finding with multiple sources. The primary research involves discussing the status of the industry with leading industry participants and industry experts, and the secondary research involves reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Historical data analysis plotted against macroeconomic data was used as a basis for its projection of total market size. And for the municipal water supply industry and municipal wastewater treatment industry, data of cities and counties are included in this report. For the running water supply and municipal wastewater treatment industries, data of cities and counties are included in this report.

Frost & Sullivan built its report on the following bases and assumptions that China's economy is likely to maintain steady growth in the next decade; China's social, economic, and political environment is likely to remain stable in the forecast period; and market drivers like economic growth and increasing urbanization rate of China, improved legislation of environmental protection and increasingly stringent law enforcement, strong and sustained government support, and increasingly high standard to water quality are likely to drive the growth of China's municipal wastewater treatment and water supply market.

The research results may be affected by the accuracy of these assumptions and the choice of these parameters. All statistics are reliable and are based on information available as of the date of the Frost & Sullivan Report. Other sources of information, which include the government, trade associations or market place participants, may have provided some of the information on which the analysis or data is based.

Our Directors, after taking reasonable care, confirm that there is no adverse change in the market information since the date of the Frost & Sullivan Report.

OVERVIEW

Our business operations are subject to extensive supervision and regulation by the PRC government. This section sets out (i) an introduction to the major PRC government authorities with jurisdiction over our current operations and (ii) a summary of the main laws, regulations and policies to which we are subject.

CAPITAL FUND SYSTEM

In accordance with the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects (《國務院關於固定資產投資項目試行資本金制度的通知》) promulgated and implemented by the State Council on August 23, 1996, the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Utilities (For Trial Implementations) (《關於城市市政公用設施建設利用外資工作的意見(試行)》) promulgated and implemented by the former Ministry of Construction (now known as MOHURD, as referred to hereinafter) on May 20, 1997, and the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) promulgated and implemented by the State Council on May 25, 2009, the capital fund system is applied in fixed asset investment projects.

Under the capital fund system, investors must contribute a certain proportion of capital as the project company's capital funds. The proportion of such contribution in wastewater treatment, water supply and municipal waste disposal projects must be no less than 20% of the total project investment amount. The specific proportion will be determined by the approval authority of that project when reviewing the feasibility research report, taking into consideration the project's future economic benefits, banks' willingness to grant loans and appraisal opinions.

PROMOTION ON PPP (PUBLIC-PRIVATE-PARTNERSHIP)

According to the Guiding Opinions of the State Council on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment (《國務院關於創新重點領域投融資機制鼓勵社會投資的指導意見》) promulgated and implemented by the State Council on November 16, 2014, PRC Governments encourage social capital's participation in the construction and operation of municipal infrastructure including sewage treatment, the government shall choose qualified operators in accordance with the law. The government may also employ the entrusted operation or transfer-operate-transfer (TOT) and other operation ways (including PPP) to transfer the built municipal infrastructure projects to the social capital for operation and management. Meanwhile, according to the Guiding Opinions of the National Development and Reform Commission on Launching the Cooperation between Governments and Social Capitals (《國家發展改革委關於開展政府和社會資本合作的指導意見》) promulgated and implemented by the NDRC on December 2, 2014, PPP model is mainly applicable to the public services and infrastructural projects which are provided by government and suitable for marketization, such as sewage treatment, local government may chose different operation mode on account of the realities of the projects (classified as

Profit-oriented projects, Projects supported by subsidies, Non-profit projects). The local branch of the NDRC shall establish the PPP project library, and shall submit the project progress to the NDRC on the fifth day of each month from January 2015.

According to the Circular on Issues Concerning the Promotion and Application of the Public-Private Partnership Model (《財務部關於推廣運用政府和社會資本合作模式有關問題的通知》) promulgated and implemented by the MOF on September 23, 2014, the Circular on Issuing the Operational Guidance on the Modes of Cooperation by Governments and Social Capital (for Trial Implementation) (《關於印發政府和社會資本合作模式操作指南(試行)的通知》) promulgated and implemented by the MOF on November 29, 2014, the Circular on Issues Concerning the Implementation of the demonstration project cooperated between Governments and Social Capitals (《財務部關於政府和社會資本合作示範項目實施有關問題的通知》) promulgated and implemented by the MOF on November 30, 2014, the Circular on Regulating co-operative contract between Governments and Social Capitals (《財務部關於規範政府和社會資本合作合同管理工作的通知》) promulgated and implemented by the MOF on December 30, 2014, Government authorities set up series guidelines of the cooperation between Governments and Social Capitals under PPP mode, including project management, co-operative contract management, project management.

CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

According to the Opinion on Accelerating the Marketization of Municipal Public Utilities Industry (《關於加快市政公用行業市場化進程的意見》) promulgated and implemented by the former Ministry of Construction on December 27, 2002, the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) 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 Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (《建設部關於加強市政公用事業監管的意見》) promulgated and implemented by the former Ministry of Construction on September 10, 2005 (collectively referred to as the "**Tender Measures**"), the relevant regulations governing the grant of concession rights for municipal public utilities projects are applicable to municipal public utilities projects including wastewater treatment, water supply and waste disposal projects. Government authorities should select investors or operators of municipal public utilities projects through public bidding according to relevant regulations, and enter into concession agreements to grant concession rights with them. The Tender Measures require written concession agreements to be entered into for all municipal public utilities projects prior to the commencement of a concession period. For any concession projects which fail to comply with such requirement, the Tender Measures also require that rectification can be made by entering into written concession agreements in a timely manner.

According to the Measures for the Administration on the Concession of Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》) which was promulgated by the NDRC, the MOF, the MOHURD, the Ministry of Transport, the Ministry of Water Resources and the PBOC on April 25, 2015 and implemented on June 1, 2015, the competent departments of the relevant industry in people's governments at or above county level or the departments authorized by the governments, may, in accordance with the needs of economic and social development, as well as the proposals for concession projects made by the relevant legal persons and other organizations, etc., put forward the implementation plans of concession projects. The implementing organizations shall, in accordance with the approved implementation plans of concession projects, select the grantees of concession rights through bidding, competitive negotiation and other competitive modes. A concession agreement may, in accordance with the relevant laws, administrative regulations and national regulations, prescribe that the grantees of concession rights could gain earnings by charging users. When the charges are insufficient to cover the construction and operating costs of concession projects and an amount of reasonable earnings, the governments may provide feasibility gap subsidies, including other relevant development and operation rights and interests granted by the governments for concession projects.

Terms of Concession Rights

According to the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) promulgated by the former Ministry of Construction on March 19, 2004 and amended on May 4, 2015, the terms of concession rights for municipal public utilities projects should not exceed 30 years. After the expiration of the term, governments should re-select the concessionaire through the relevant procedures.

Pricing

According to the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) promulgated on October 2, 2013 and implemented on January 1, 2014 by the State Council, where the concession operation contract or the contract on entrusted operation involves the reduction of pollutants and service fees for sewage treatment operation, the competent departments of urban drainage shall consult competent departments of environmental protection and competent price departments. The State encourages the implementation of a concession system for urban sewage treatment. Specific measures in this regard shall be formulated by the competent department of housing and urban-rural development of the State Council in conjunction with other relevant departments of the State Council.

According to the Measures for the Administration on the Price of Municipal Water Supply (《城市供水價格管理辦法》) promulgated on September 23, 1998 and amended on November 29, 2004 by the NDRC and the former Ministry of Construction, the sewage treatment fees shall be calculated into the price of municipal water supply and collected according to both the range for municipal water supply and the volume of water used by consumers. The competent price departments of the government at or above county level shall also be the competent departments for the municipal water supply price. In determining the price of municipal water supply, a hearing system and an announcement system shall be adopted. The price of municipal water supply consists of the costs of water supply, expenses, taxes and profits. The standard for sewage treatment fees shall be determined according to the fees on the operation, maintenance and construction of municipal drainage pipeline networks and sewage treatment plants. A municipal water supply enterprise shall apply in writing to the competent price departments of the local municipal people's government and send a duplicate of the price-adjusting declaration documents to the competent departments of municipal water supply at the same level when there is a need to adjust the price of water supply. The adjustment for the price of the municipal water supply shall be examined and verified by the competent price departments of the local municipal people's government, carried out upon the approval by the local municipal people's government and reported to the competent price departments and competent departments for the administration of water supply for record. After the receipt of the application for the price adjustment of municipal water supply, the municipal price competent departments shall hold hearings, inviting the National People's Congress (the "**NPC**") delegates and Chinese People's Political Consultative Conference (the "**CPPCC**") members, relevant departments and representatives of consumers from all sectors to participate in. For those main municipal water supply projects of constructing, maintaining the water supply facilities and putting them into services, such as the connection of the pipeline networks with the consumers, the capacity increase and the maintenance of the pipeline networks, and the installation of measuring instruments, etc., which are consumers-related and monopolistic, the price standards of labor, important raw materials and infrastructure shall be determined by the competent price departments of local municipal people's government and the competent departments for the administration of municipal water supply at the same level. Different on-grid water prices adopted by different water supply enterprises are permitted if there are water plants or pipeline networks operating independently in the city. However, for the consumers of the same kind, the same price shall be adopted.

According to the Circular of the NDRC, the MOF, the MOHURD on the Relevant Issues concerning the Formulation and Adjustment of the Charging Standard for Sewage Treatment (《關於制定和調整污水處理收費標準等有關問題的通知》) promulgated and implemented on January 21, 2015, the charging standard for sewage treatment shall be formulated and adjusted on the comprehensive consideration on factors such as the current condition of water pollution prevention and control and the bearing capacity of the economy and society of the region according to the principles of "Polluter-pays, Equitable Burden Sharing, Cost-reimbursement, Reasonable Profit Gaining".

The charging standard shall be set for the compensation of the operating cost of sludge disposal facilities and reasonable profit gaining. By the end of 2016, the charging standard for sewage treatment of cities shall be adjusted to be not less than RMB0.95 per ton for residents, and not less than RMB1.4 per ton for non-residents in principle; the charging standard for sewage treatment of counties and the key designated towns shall be adjusted to be not less than RMB0.85 per ton for residents, and not less than RMB1.2 per ton for non-residents in principle.

When the charging standard for sewage treatment has reached the minimum level, but remains insufficient for the compensation of the cost and the reasonable profit gaining, it shall be raised in combination with the consideration of pollution prevention and control and so forth. As for the cities, the counties and the key designated towns in which the sewage treatment fees have not been collected, the sewage treatment fees shall be collected by the end of 2015 at the latest, and the sewage treatment plants shall be built and put into operation within three years.

In formulating and adjusting the charging standard for sewage treatment, each local government shall go through the relevant pricing procedures including the cost supervision for sewage treatment enterprises, the expert panel discussion and the group review in accordance with the law, to ensure the scientificity, fairness and transparency of formulating the charging standard for sewage treatment by the government, widely accept social supervision and protect the legitimate rights and interests of consumers and operators.

Water Quality

The water quality of domestic drinking water provided by the means of various centralized and non-centralized water supply in urban and rural areas should comply with the standards set out in the Standards for Drinking Water Quality (《生活飲用水衛生標準》) (GB5749-2006) promulgated on December 29, 2006 and implemented on July 1, 2007. The water quality of effluent flowing from municipal wastewater treatment plants should comply with the standards set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) (GB18918-2002) promulgated on December 24, 2002 and amended on May 8, 2006. According to the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) promulgated on May 11, 1984 and amended on May 15, 1996 and February 28, 2008, and implemented on June 1, 2008, the company operating centralized treatment facilities for municipal wastewater is responsible for the quality of the effluent from the wastewater treatment plants.

The water quality of reclaimed water should comply with the standards set out in Reclaimed Water Standard (《再生水標準》) (SL368-2006) promulgated by the Ministry of Water Resources on March 1, 2007 and implemented on June 1, 2007. For reclaimed water used in greening, flushing, road cleaning, car washing, construction, fire control, the reclaimed water quality should comply with the National Quality Standard for Municipal Wastewater Reclamation for Municipal Multi-Purpose Uses (《國家城市污水再生利用城市雜用水水質標準》) (GB/T18920-2002). For reclaimed waters used to replenish scenic waterways, the reclaimed water quality should comply with the National Quality Standard for Municipal Wastewater Reclamation for Scenic and Environmental Uses (《國家城市污水再生利用景觀環境用水水質標準》) (GB/T18921-2002). For reclaimed waters used for industrial cooling, washing, boiler and other productions and processes, the reclaimed water quality should comply with the National Quality Standard for Municipal Wastewater Reclamation for Industrial Uses (《國家城市污水再生利用工業用水水質標準》) (GB/T19923-2005). For reclaimed waters used in irrigation, the reclaimed water quality should comply with the National Quality Standard for Municipal Wastewater Reclamation for Industrial Uses (《國家城市污水再生利用農田灌溉用水水質標準》) (GB20922-2007). When the reclaimed water is used for multiple purposes, the highest standard for the relevant uses should apply.

Government Supervision

According to the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) promulgated by the former Ministry of Construction on March 19, 2004 and amended on May 4, 2015, the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (《建設部關於加強市政公用事業監管的意見》) promulgated and implemented by the former Ministry of Construction on September 10, 2005, and the Measures for the Administration on the Concession of Kunming (《昆明市特許經營權管理辦法》) promulgated by the government of Kunming on September 7, 2010 and implemented on October 8, 2010, provincial construction bureaus are the primary regulators supervising the operation of local public utility concession projects (including municipal wastewater treatment, water supply and waste incineration and power generation projects), and the government's supervision of operators on concession rights regarding these projects mainly includes the following:

A. Routine supervision

The authorities in charge of supervising the municipal public utilities shall carry out periodic spot checks on the quality of the product and service provided by public utilities operators and shall monitor the cost of product and service from municipal public utilities.

B. Mid-term assessment

During the course of project operation, the authorities in charge of supervising the municipal public utility operators shall organize experts to carry out mid-term assessment on the performance of the operators who have acquired the concession; such assessment cycle shall be carried out at least every two years. Only under special circumstances, may the supervisory authorities carry out annual assessments.

C. Supervision of material matters

Unless it is otherwise authorized by the government in advance, municipal public utilities operation enterprises should not transfer or lease their concession rights, dispose of or mortgage business assets, shut down or wind up without permission during the concession period. If an enterprise which has been granted concession rights intends to unilaterally terminate the concession agreement within its valid period thereof, it shall apply to the relevant supervisory authority three month earlier than the contemplated termination. Before such authority's approval on its cancellation, the relevant enterprise shall maintain its ordinary business and service.

D. Consequences of violations

Where an enterprise which has been granted a concession right is involved in any one of the following conducts during the concession period, the competent authority of the industry shall order the enterprise to be rectified during a prescribed period, fails which the competent authority shall withdraw the relevant concession right, and may take over the enterprise temporarily, after being reviewed and approved by the Municipal Concession Office, and submitted for approval to the Municipal Concession Committee:

(1) Transfer or lease the concession rights without authorization;

(2) Change of shareholding without authorization, or incompliance with the qualification required for the granting of rights by relevant concession agreement;

(3) Concession operation beyond the range of relevant concession agreement;

(4) Failure to meet the standards and requirements for utilities products and services set out in relevant concession agreement, which seriously affects public interests;

(5) Dispose of or mortgage business assets without authorization;

(6) Occurrence of any material quality or production safety accident due to poor management;

(7) Serious deterioration of financial conditions due to poor operation and management;

(8) Failure to construct, modify or maintain utilities according to the municipal planning; close out or shut down without permission, which seriously affects public interest and safety;

(9) Other events as set out in relevant concession agreement; and

(10) Other conduct prohibited by laws and regulations.

BUSINESS QUALIFICATIONS AND LICENSES

Health Permit

According to the Measures for the Administration on the Health Supervision of Domestic Drinking Water (《生活飲用水衛生監督管理辦法》) promulgated by the former Ministry of Construction and Ministry of Health on September 1, 1996, implemented on January 1, 1997 and amended on February 12, 2010 and April 17, 2016, and implemented on June 1, 2016, the state implements the health permit system for the water supply units and the products involving the drinking water safety. The drinking water supplied by the water supply units shall accord with the national sanitary standards for drinking water. Centralized water supply units must obtain a health permit issued by the health administrative departments of the local people's governments at or above the county level.

The term of validity of a health permit certificate is four years, and it would be reviewed once a year. The water supply units shall reapply for the recertification within 6 months prior to its expiration.

Qualifications for Municipal Water Supply Enterprises

According to the Decisions of the State Council on the Cancellation of the First Batch of the Items Requiring Administrative Approval (《國務院關於取消第一批行政審批項目的決定》) promulgated and implemented on November 1, 2002, the administrative licensing matter regarding the examination and approval of the qualifications for municipal water supply enterprises has been cancelled.

According to the Regulations on Urban Construction Administration of Yunnan Province (《雲南省城市建設管理條例》) promulgated on November 30, 1994, implemented on January 1, 1995 and amended on June 29, 2004 and November 30, 2006 implemented on January 1, 2007, enterprises involved in water supply business should obtain business certificate issued by provincial administrative department in charge of construction before the commencement of business.

Water Intake Permit

According to the Water Law of the PRC (《中華人民共和國水法》) promulgated by the Standing Committee of National People's Congress (the "**NPC Standing Committee**") on January 21, 1988, amended on August 29, 2002 and August 27, 2009, the Regulations on Administration of Water Intake Permit and Collection of Water Resources Charges (《取水許可和水資源費徵收管理條例》) promulgated on February 21, 2006 and implemented on April 15, 2006 by the State Council and the Measures on Administration of Water Intake Permit (《取水許可管理辦法》) promulgated and implemented on April 9, 2008, amended on December 16, 2015 by the Ministry of Water Resources, except for those who are not required to apply for water intake permit under the legal requirements, entities and individuals which obtain water resources from rivers, lakes and underground water and have water extradition works or facilities completed and operated for over 30 days, must apply for the water permit at the competent water administration department of the municipal government at county level or above or river conservancy commission in accordance with the requirements of the State water intake permit system and the institution of compensated use of water resources, and obtain the water rights with paying water resources fee. Water intake entities or individuals shall extract water according to the approved annual water intake plan. In the event that the water extraction exceeds the limit under the plan or a fixed amount, water resources fee shall be paid on the excess part.

Water permits generally lasts for five years but no more than ten years. Upon the expiration of the valid term, water intake entities or individuals who seek for extension shall submit their applications to the former approval authorities within 45 days prior to the expiration.

Wastewater Discharge Permit

According to the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) revised on February 28, 2008 and implemented on June 1, 2008 and the Implementing Rules of the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法實施細則》)promulgated and implemented on March 20, 2000, an enterprise operating centralized treatment facilities of urban wastewater shall obtain the Wastewater Discharge Permit. It is forbidden for enterprises and institutions to discharge wastewater without a discharge permit or in violation of the provisions of the discharge permit.

According to Yunnan Dianchi Lake Protection Regulations (《雲南省滇池保護條例》), the pollutant discharge upon permission system is adopted within the protection range of Dianchi Lake. It is prohibited to discharge wastewater and sewage without the pollutant discharge permit or to discharge directly or indirectly into the lake in violation of the regulations in relation to the discharge permit.

Work Safety License

According to Regulation on Work Safety Licenses (《安全生產許可證條例》) promulgated and implemented on January 13, 2004 and amended on July 18, 2013, January 28, 2014 and July 29, 2014, the state applies a work safety licensing system to enterprises engaged in construction. Before starting production, a construction enterprise shall apply for the work safety license to the department in charge of the issuance and administration of work safety licenses. No construction enterprises may engage in production activities without work safety licenses.

The administrative departments of construction under the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government shall be in charge of issuance and administration of work safety licenses for construction enterprises, and be subject to the guidance and supervision of the administrative department of construction under the State Council. The valid period for a work safety license shall be 3 years.

Construction Enterprise Qualification

According to the Measures of Regulation on Construction Enterprise Qualification (《建築業企業資質管理規定》) promulgated on January 22, 2015 and implemented on March 1, 2015, the second grade qualification of sequence for general contracting for construction shall be issued by the competent departments of construction under the government of province, autonomous region and municipality where the enterprise registered its business license, and the third grade qualification of sequence for general contracting for construction (excluding the third grade qualification for general contracting for railway and communication engineering construction) shall be issued by the competent departments of construction under the government of the city with districts where the enterprise registered its business license. The qualification certificate is valid for 5 years.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated and implemented on December 26, 1989 by the NPC Standing Committee, entities which caused environmental pollution and other public hazards shall adopt effective measures to prevent and control the pollution and harm done to the environment. The design, construction and commission of facilities for prevention and control of pollution shall be conducted at the same time with that of the main body of the construction project. No permission shall be given for a construction project to be commissioned or used, until its facilities for the prevention and control of pollution are examined and accepted by the competent administrative department of environmental protection. The amended Environmental Protection Law of the PRC was promulgated on April 24, 2014, and has been implemented on January 1, 2015.

In addition to the provisions contained in the former Environmental Protection Law of the PRC, the amended Environmental Protection Law of the PRC added the following key provisions: The State adopts policies and measures relating to finance, taxation, pricing and government procurement to encourage and support the development of environmental protection industries related to environmental protection technologies and equipment, and the integrated use of resources and environmental services. When enterprises, public institutions and other producers and business operators reduce pollution levels beyond the statutory discharge standards, the relevant government entities extend encouragement and support through fiscal assistance, favorable taxation, pricing and government procurement policies.

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated on October 28, 2002 and came into effect on September 1, 2003 and the Rule on Classification for Environmental Impact Assessment of Construction Projects (《建設項目環境影響評價文件分級審批規定》) promulgated by the Ministry of Environmental Protection of the PRC on January 16, 2009, and came into effect on March 1, 2009, the PRC government has established a system to appraise the environmental impact of construction projects and classify the appraisal based on the degree of environmental impact caused by the construction project. In the event of significant environmental impact, an environmental impact appraisal report shall include a comprehensive appraisal on the possible environmental impact; in the event of slight environmental impact, an environmental impact report shall include a basic analysis or appraisal on the environmental impact; and in the event of minimal environmental impact so that it is not necessary to conduct an environmental impact appraisal, an environmental impact form shall be filed. The registered report should be approved by competent administrative department before starting construction.

According to the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated and implemented on November 29, 1998 and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated on December 27, 2001 and amended on December 22, 2010, a construction entity shall, before commencing the trial production of a construction project, submit an application for trial production to the competent administrative department of environmental protection with approval rights. A construction entity shall also, before the construction project being put into production or use, file an application with the competent administrative department of environmental protection with approval rights for acceptance checks on environmental protection of the completed construction project.

According to the Action Plan promulgated on April 2, 2015, the targets of the Action Plan are that (i) by 2020, China's water environment quality will gradually improve; the percentage of severely polluted water bodies will be greatly reduced and the quality of drinking water will be improved; groundwater overdraft will be reduced; the aggravated pollution of groundwater will be preliminarily controlled; the environmental quality of offshore areas, and the aquatic ecosystem in areas such as Beijing-Tianjin-Hebei Region, Yangtze River Delta and Pearl River Delta will be improved; and (ii) by 2030, the government will work to improve the quality of the ecological environment and realize the virtuous circle of ecosystem by the middle of the 21st century. In order to realize these targets, the following 10 measures will be adopted: (i) discharge of pollutants will be further controlled and emission reduction measures will be implemented to tackle pollution caused by industries, urban living, agriculture and the rural sector, ships and ports; (ii) economic restructuring and upgrading will be further boosted. Industrial water, reclaimed water and seawater will be used to promote cyclic development; (iii) various measures will be implemented to continue saving and protecting water resources. A strict management system of water resources will be implemented so as to control the overall use of water, improve water-use efficiency and protect the ecological flows of key rivers; (iv) scientific and technological support will be further improved. Advanced technologies will be promoted and fundamental research will be strengthened. The environmental protection industry will be further regulated and the authorities will promote the development of the environmental protection service industry; (v) relevant government authorities will make efforts to promote water price reform, improve taxation policies, facilitate diversified investment and establish an incentive mechanism that promotes water environment treatment; (vi) relevant law enforcement and supervision will be stricter, and environmental violations and illegal construction projects will be severely punished; (vii) management of water environment will be further strengthened. The relevant government authorities will strictly control the amount of pollutants and the environmental risks; (viii) relevant government authorities will make efforts to ensure the safety of aquatic ecosystems, including ensuring the safety of drinking water sources, controlling underground water pollution and pollution in major river basins, and strengthening the protection of water bodies and the ocean environment. By the end of 2017, foul water in urban built-up areas shall be basically eliminated; (ix) duties of various government authorities and enterprises will be more clarified. Local governments should be more responsible for the protection of the water environment. The central government will check the implementation of the Action Plan in different basins, regions and sea areas every year. The enterprises discharging water pollutant shall strictly comply with the relevant laws and regulations; and (x) public participation and community supervision will be improved, and the governments will regularly publish information in relation to the water environment according to relevant laws and regulations.

LAND, PLANNING AND CONSTRUCTION PERMITS

Land Use Rights

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated on June 25, 1986 and amended on December 29, 1988, August 29, 1998 and August 28, 2004, land owned by the State may be remised or allotted to construction units or individuals in accordance with the law. The People's Government at or above the county level shall register and put on record uses of state-owned land used by construction units or individuals, and issue certificates to certify the land use rights.

According to the Order of the Ministry of Land and Resources on Promulgating the Land Allocation Catalogue (《國土資源部關於發佈《劃撥用地目錄》的命令》) promulgated and implemented on October 22, 2001, the land use rights of construction projects which are in conformity with the Catalogue can only be allotted through application by the construction units and approval of the people's government with the approval authority.

Construction Land Planning Permit

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) promulgated by the NPC Standing Committee on October 28, 2007 and amended on April 24, 2015, a Construction Land Planning Permit is required for the use of both allocated land and granted land.

If a construction entity which was authorized to use the construction land fails to obtain a Construction Land Planning Permit, the People's Government at or above the county level shall cancel any relevant authorization documents previously issued. If the land has already been occupied, it shall be returned promptly. Furthermore, the construction entity shall be obliged to compensate for any damage caused to any other relevant parties according to law.

Construction Work Planning Permit

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), where construction work is conducted in a city or town planning area, the relevant construction entity or individual shall apply for a Construction Work Planning Permit from a competent urban and rural planning administrative department of the People's Government at the municipal or county level or to the People's Government of town as recognized by the People's Government of a province, autonomous region or municipality directly under the Central Government.

For construction work that proceeds without the Construction Work Planning Permit or in violation of the provisions of the Construction Work Planning Permit, a competent urban and rural planning administrative department at or above the county level can order termination; if the impact on the planning caused by such construction can be eliminated, the department shall order it to take remedial action within a prescribed time limit and pay a fine of not less than 5% but not exceeding 10% of the construction cost; if such impact cannot be eliminated by remedial action, the department shall order the construction entity to demolish its construction within a prescribed time limit. For construction work that cannot be demolished, the department shall not only confiscate it or seize any illegal income but also may impose a fine of not more than 10% of the construction price.

Construction Work Commencement Permit

According to the Construction Law of the PRC (《中華人民共和國建築法》) promulgated by the NPC Standing Committee on November 1, 1997 and implemented on March 1, 1998 and its amendment formally issued on April 22, 2011 and implemented on July 1, 2011, a construction entity shall, prior to the commencement of a construction project, apply for a Construction Work Commencement Permit from a competent department of the construction administration of the People's Government at or above the county level of the place where the project is located pursuant to the relevant regulations of the State. However, small projects determined by the competent department of construction administration of the State Council, and construction projects which have already obtained approvals for their construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council, are subject to exception.

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) promulgated by the State Council and implemented on January 30, 2000, a construction entity commencing the project without obtaining the Construction Work Commencement Permit or approvals for its construction commencement report, shall be ordered to stop the construction work, carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% but not exceeding 2% of the construction price.

Inspection and Acceptance on Completion of Construction Projects

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) promulgated and implemented on January 30, 2000 and Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the MOHURD and implemented on October 19, 2009, a construction project shall not be delivered for use unless it has passed the acceptance checks. The construction entity should file a record to a competent construction administrative department at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks.

Where a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks, it shall be ordered to carry out remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the contractual project price, and shall be obliged to pay compensation according to law if any losses have been caused. If the construction entity fails to file a record of passing the acceptance checks in respect of the project within 15 days from the day when the construction project passes such checks, it shall be ordered to carry out remedial actions within a prescribed time limit and shall be fined not less than RMB200,000 but not exceeding RMB500,000.

LEGAL SUPERVISION OVER THE LABOR PROTECTION IN CHINA

Labor Law of the PRC

The Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the NPC Standing Committee on July 5, 1994 and became effective on January 1, 1995, and was amended on August 27, 2009, provides that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health systems, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

Labor Contract Law of the PRC and its Implementation Regulations

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the "**Labor Contract Law**"), which was promulgated by the NPC Standing Committee on June 29, 2007, came into effect on January 1, 2008, and was amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) which was promulgated and implemented on September 18, 2008, regulate parties to a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Labor Contract Law and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching an agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Pursuant to the Labor Contract Law, labor contracts concluded prior to the enactment of the said law and subsisting within the validity period of the said law shall continue to be honored. If a labor relationship has already been established but no formal contract has been made, a written labor contract shall be entered into within one month from the effective date of the Labor Contract Law.

Laws and Regulations on the Supervision over the Social Security and Housing Funds

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (《社會保險費徵繳暫行條例》), which was promulgated by the State Council and implemented on January 22, 1999, the Regulations on Work Injury Insurance (《工傷保險條例》), which was promulgated by the State Council on April 27, 2003 and was amended on December 20, 2010, the Regulations on Unemployment Insurance (《失業保險條例》), which was promulgated by the State Council and implemented on January 22, 1999, and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), which was promulgated by the Ministry of Labor and implemented on December 14, 1994, enterprises in PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance of the PRC (《中華人民共和國社會保險法》), which was promulgated on October 28, 2010 and became effective on July 1, 2011, regulates basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated by the State Council and came into effective on April 3, 1999, and was amended on March 24, 2002, stipulate that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer all belong to the individual employee.

TAXATION

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**"), which was promulgated on March 16, 2007 and came into effect on January 1, 2008, and the Implementation Rules To the Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》) (the "**Implementation Rules**"), which was promulgated on December 6, 2007 and came into effect on January 1, 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. Furthermore, resident enterprises, which refer to enterprises that are set up in accordance with the PRC law, or that are set up in accordance with the law of the foreign country (region) but with its actual administration institution in the PRC, shall pay enterprise income tax originating both within and outside the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax, in relation to the income originating from the PRC and obtained by their institutions or establishments, and on the income incurred outside the PRC provided there is an actual relationship with the institutions or establishments set up by such enterprises. Where non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from the PRC.

According to the EIT Law and the Implementation Rules, the income incurred from environmental protection projects or energy and water saving projects which meet relevant requirements shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations, and thereafter be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the MOF, the State Administration of Taxation (the "**SAT**") and relevant departments of the State Council, and shall be publicized and implemented after being approved by the State Council.

From January 1, 2011 to December 31, 2020, companies whose primary businesses fall into the Catalogue of Encouraged Industries in the Western Region (《西部地區鼓勵類產業目錄》), located in western China and whose revenues from their primary businesses account for more than 70% of their total revenue in the relevant year, will be granted a preferential income tax rate of 15% after being reviewed and approved by the relevant tax authorities.

Business Tax

The Temporary Regulations on Business Tax (《中華人民共和國營業稅暫行條例》), which was promulgated by the State Council on December 13, 1993, and was amended on November 10, 2008 and came into effect on January 1, 2009, provide that entities and individuals shall pay business tax if they are engaged in the provision of services with respect to the industries of transport business, tourism, construction, entertainments and other service prescribed in Temporary Regulations on Business Tax, or transfer of intangible assets or sale of real estate within China's territory.

According to the Reply of the State Administration of Taxation on Exempting Business Tax for Wastewater Treatment Fees (《國家稅務總局關於污水處理費不徵收營業稅的批覆》) promulgated by the SAT and implemented on December 14, 2004, the wastewater treatment service provided by a wastewater treatment enterprise does not fall into the scope of work that should be subject to business tax. Therefore, no business tax will be levied on the wastewater treatment fee.

Value-added Tax

The Temporary Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on December 13, 1993, amended on November 10, 2008, and implemented on January 1, 2009, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the Ministry of Finance (the "**MOF**") on December 25, 1993, and was amended on December 15, 2008 and October 28, 2011, set out that all taxpayers selling goods or providing processing, repairing or maintenance services in China, or importing goods to China shall pay a value-added tax. A tax rate of 17% shall be levied on general taxpayers selling or importing various goods and on taxpayers providing processing, repairing or maintenance services. The applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點方案》), which was promulgated by the MOF and the SAT and implemented on November 16, 2011, the government launched gradual taxation reforms starting from January 1, 2012, whereby it collected value-added tax in lieu of business tax on a trial basis in regions and industries showing strong economic performance, such as transportation and certain modern service industries.

According to the Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (《資源綜合利用產品和勞務增值稅優惠目錄》) promulgated by the MOF and the SAT on June 12, 2015 and implemented on July 1, 2015, taxpayers engaged in the sale of products listed in the catalogue and providing services generated from comprehensive utilization of resources (hereinafter "**sale of products and services of comprehensive utilization**"), may claim 70% VAT refunds immediately after payment. The sale of reclaimed water after wastewater treatment falls into the category of sale of products and services of comprehensive utilization.

Urban Maintenance and Construction Tax as well as Education Surtax

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》), which was promulgated by the State Council on February 8, 1985 and came into effect on January 1, 1985, and amended on January 8, 2011, and Circular of the SAT on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (《國家稅務總局關於城市維護建設稅徵收問題的通知》), which was promulgated by the SAT and implemented on March 12, 1994, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

In accordance with Tentative Provisions on the Collection of Educational Surtax (《徵收教育費附加的暫行規定》), which was promulgated by the State Council on April 28, 1986 and implemented on July 1, 1986 and last revised on January 8, 2011, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

Fiscal Subsidy

Pursuant to the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) promulgated by the State Council on October 2, 2013 and implemented on January 1, 2014, sewage treatment fees shall be included in the local fiscal budget for the purpose of administration, and shall be exclusively used for the construction and operation of urban sewage treatment facilities and the treatment and disposal of sludge, but not for any other purpose. The standard rate of sewage treatment fees shall not be lower than the normal operating cost of urban sewage treatment facilities. If due to special reasons, the sewage treatment fees collected were insufficient to pay for the normal operating cost of urban sewage treatment facilities, a subsidy would be granted by the local people's government.

Pursuant to the Interim Administrative Measures for Special Funds for Urban Pipe Networks (《城市管網專項資金管理暫行辦法》) promulgated and implemented by the MOF and the MOHURD on June 1, 2015, special funds from the centralized pool will be allocated for use in the sewage pipeline and network construction projects.

LAWS AND REGULATIONS IN LAOS

We are subject to Laotian laws and regulations due to our undertaking water or wastewater treatment projects in Laos. Foreign investment in Laos' water supply business, including construction, maintenance, improvement and development of water supply infrastructures, is permitted under the country's Water Supply Law. Water supply projects can be undertaken in the BOT and BOO models, among others. Under the Law on Investment Promotion (No. 02/NA July 8, 2009), one or more foreign investors can directly or indirectly hold 100% interest in a project and the state recognizes and protects the rights of the foreign investors. In case of condemnation of a project, relevant foreign investors are entitled to fair compensation from the state. Under the Decree on Special Economic Zone and Specific Economic Zone (No. 443/PM October 26, 2010), foreign investors can benefit from favorable policies for the country's special economic zone and are allowed to make investments in the country's water supply and wastewater treatment infrastructures and public utilities.

Set forth below are the main laws we are subject to in Laos.

Foreign Investment

The Law on Investment Promotion (No. 02/NA) published on July 8, 2009 is the law currently in force on the supervision of foreign investment. The Law on Investment Promotion stipulates the sectors open to foreign investment, the legal way of investment, the measures to encourage investors, the rights and obligations of investors, the approval procedure of investment, et cetera. The Implementing Regulation of the Law on Investment Promotion was promulgated on April 26, 2011 to further interpret some sections of the Law on Investment

Promotion. The purpose of the aforesaid law and regulation is to promote the development of Laos by enhancing the cooperation with other countries. It is expected that by the end of 2016, a revised version of the Law on Investment Promotion will be published, affecting the investment environment in Laos in the following aspects: the registration requirements of companies will be loosen; the approval procedure will be simplified; and the PPP model of projects investment will be introduced.

Laos recognizes and protects the rights of the foreign investors, and expropriation is prohibited. In case of condemnation of a project, according to the Law on Investment Promotion, relevant foreign investors are entitled to compensation from the state according to the market price at the time of the condemnation. Laos has entered into several treaties regarding investment protection with many countries, protecting the interests of foreign investors on the government level. Laos also provides various tax benefits for foreign investors based on relevant industries and locations.

The three options for foreign investors to invest in Laos under the Law on Investment Promotion are setting up wholly foreign-owned enterprises, setting up joint ventures with local investors, and entering into cooperation agreement with local investors.

Foreign Currency Exchange and Remittance

According to Laotian regulations on foreign exchange, foreign companies registered in Laos can open foreign exchange accounts in local banks for import and export settlement. Permits for capital entry issued by Laotian banks are required for foreign investment. According to the Law on Investment Promotion, foreign investors are entitled to transfer the proceeds from their investment out of Laos, after payment of taxes and salaries of employees.

Laws and Policies on Water Supply

The Water Supply Law promulgated in 2009 is the major law on the water supply operations in Laos, stipulating the scope, standards, environmental protection, industry entry, operation, protection of the investors' rights, prohibition, and regulation matters in relation to water supply.

The Water Supply Law encourages foreign investors to invest in the construction of infrastructure and pipes and networks for water supply, and the development and maintenance of human resources, especially in remote areas. The state welcomes and supports the use of modern technologies to promote the quality as well as the quantity of water supplied.

Foreign investors are qualified to invest in water supply industry as long as they have relevant experience, skilled personnel, funds, equipment, the operation area as permitted by regulatory authorities, and the water source as recognized by relevant regulatory departments.

Foreign investors are entitled to use the land for the construction of water supply equipment, to operate water supply business as licensed, possess the ownership of the water supply equipment, gain profits from operation, obtain compensation for others' infringement, receive guidance on water supply operation, apply for the extension of operation period, and lease and transfer the water supply business according to relevant laws and regulations. Foreign investors can take BOT, BOO and other project models when they participate in the water supply industry.

Water supply and wastewater treatment enjoy the favorable policies as stipulated in the Law on Investment Promotion. Foreign investors have access to financing according to relevant laws and regulations. The water supply industry is regulated by the central and local authorities of construction and transportation.

Laws and Regulations on Projects Construction

Currently the Construction Law is the major law on projects construction in Laos, stipulating the entry, shareholding composition, and business scope of real estate development, roads and railways construction, civil buildings, construction consultation, et cetera.

Prior approval for the construction plan and design, and for the commencement of construction from relevant government departments are required before the construction of projects. The construction shall strictly follow the plan and design approved by the government departments. Projects construction is regulated by the central and local authorities of construction and transportation.

Requirements for Environmental Protection and Design

According to the Laotian laws, projects concerning the use of large lands, electricity, mines, roads and railways, are required to provide environment impact report issued by professional agencies in the approval process. Also, water supply projects are required to satisfy the requirement and water quality standards set by the authority of construction and transportation, and the projects shall not cause pollution or damage to the environment or water source.

Pricing of Public Services

According to the Water Supply Law, the pricing of public service products, including water, is determined by the government based on the suggestion provided by authority of construction and transportation, according to different plans of economic development in different times, for various regions, locations, usage and users. The enterprise supplier of water are entitled to charge waters tariffs from users based on the volume of water consumed, to request duly payment of such tariffs, and to claim compensation for damages of the water supply equipment.

OUR HISTORY

Our Company is an integrated water service provider established as a joint stock company with limited liability in the PRC on December 23, 2010 by our Controlling Shareholder, Kunming DIG, Kunming IDI, Kunming SAMO and Kunming Xindu. Since our establishment, we have expanded our business to various regions in China, with business covering wastewater treatment and water related services, including reclaimed water and running water supply services.

Our history can be traced back to 1989, when the Kunming municipal government established Kunming No. 1 Wastewater Treatment Plant (昆明市第一污水處理廠) (subsequently renamed as the Kunming No. 1 Water Purification Plant), one of the first wastewater treatment plants in Southwest China, to treat water in Dianchi Lake, Kunming. Kunming No. 1 Wastewater Treatment Plant had a designed treatment capacity of 55,000 m^3 per day (later increased to 120,000 m^3 per day by December 2003).

In 1996, Kunming City Drainage Co., Ltd.* (昆明市城市排水有限責任公司) ("**Kunming City Drainage**") funded by World Bank loans, took over the responsibility of managing and operating the wastewater treatment business from the Kunming government, and began to run the business as a commercial enterprise. Since then, Kunming City Drainage worked with the Kunming municipal government to construct Kunming No. 2, No. 3, No. 4, No. 5 and No. 6 Wastewater Treatment Plants; after completion of construction, Kunming No. 2, No. 3, No. 4, No. 5 and No. 6 Wastewater Treatment Plants were 100% owned and operated by Kunming City Drainage. In 2004, the aggregate designed wastewater treatment capacity of Kunming Nos. 1 to 6 Water Purification Plants increased to 555,000 m^3 per day.

In 2004, our Controlling Shareholder, Kunming Dianchi Investment was founded as a wholly state-owned company as the successor to Kunming City Drainage. Our Controlling Shareholder acts as a major investor, marketization operator, and projects construction and assets operation manager of Dianchi environmental protection and water treatment projects of Kunming. Since its establishment, our Controlling Shareholder has been supporting the smooth implementation of wastewater treatment projects. The Controlling Shareholder has total assets exceeding RMB50 billion and has a registered capital of RMB5,000,000,000.

In 2010, our Company was established and took over the wastewater treatment business from our Controlling Shareholder, and was granted the concession right to be the exclusive wastewater treatment service provider in Kunming. Since then, our Company has increased its services coverage to include reclaimed water and running water supply, and expanded to Kunming and various areas in China. As of the Latest Practicable Date, our facilities in operation and our facilities under construction have an aggregate designed wastewater treatment capacity of 1.6 million m^3 per day, and facilities under an entrusted operation and management arrangement have an aggregate wastewater treatment capacity of 500,000 m^3 per day.

MILESTONES

The following illustrates our major business development milestones and achievements:

Year	Milestones
1989:	Kunming No. 1 Water Purification Plant was constructed and commenced operation as one of the first wastewater treatment plants in Southwest China, with a daily wastewater treatment capacity of 55,000 m^3 per day.
1996–2003:	Kunming City Drainage was established. Kunming No. 1 Water Purification Plant was transferred to Kunming City Drainage. Kunming No. 2 to No. 6 Water Purification Plants were constructed and commenced operation, and were 100% owned by Kunming City Drainage after completion of construction.
2004:	Our Controlling Shareholder was established, and Kunming No. 1 to No. 6 Water Purification Plants were transferred to our Controlling Shareholder. The aggregate designed daily wastewater treatment capacity of the Group increased to 555,000 m^3 per day.
2009:	Kunming No. 7 and No. 8 Water Purification Plants were constructed and commenced operation.
2010:	Our Company was established, and Kunming No. 1 to No. 8 Water Purification Plants were transferred from our Controlling Shareholder to our Company. The aggregate designed daily wastewater treatment capacity of our Group increased to 1,105,000 m^3 per day.
2011:	Our Company was granted an exclusive concession right for 30 years to treat wastewater in Kunming. Kunming No. 1 to No. 8 Water Purification Plants adopted the National Class I Standard A discharge standard.
2012:	Our Company was awarded "Exemplary Employer of Kunming City for Talented Employees" (昆明市人才工作示範單位) and "Leading Employer of Kunming City for Talented Employees" (昆明市人才工作先進單位) by Organization Department of the Party Committee of Kunming City.

Year	Milestones
2013:	Our Company was accredited with the ISO9001 quality management systems standard, the ISO14001 environmental management systems standard and the OHSAS18001 occupational health and safety management systems standard.
	Our Company was accredited as a "Technological Innovative Pilot Enterprise" (科技創新型試點企業) by the Kunming Science and Technology Bureau.
	During the National Urban Area Wastewater Treatment Plant Energy Saving and Emission Reduction Competition held in 2013, the Kunming No. 3 and No. 7 Water Purification Plants were both recognized as national "10 Best Wastewater Treatment Operator" (全國十佳達標單位). In addition, the Kunming No. 3 Water Purification Plant was recognized as a "Pioneer in Reclaimed Water Use" (再生水利用先進單位), and the Kunming No. 7 Water Purification Plant was recognized as a "Pioneer in Energy Efficiency and Effluent Quality" (節能減排先進單位) by China Urban Water Association and National Committee of the Chinese Seamen & Construction Workers' Union.
	The Kunming No. 1 Water Purification Plant was recognized as a "Outstanding Company in Energy Saving and Emission Reduction" (優秀達標單位), and the Kunming No. 2 to No. 6 Water Purification Plants were recognized as a "Advanced Company in Energy Saving and Emission Reduction" (先進達標單位).
2014:	Our Company acquired and obtained concession rights to the Shidian County Wastewater Treatment Plant project. As a result of this acquisition, we expanded our business outside Kunming to other areas in Yunnan Province, the PRC.
	The Company invested in the construction of the second water factory in Shidian County as a BOT project.
	The technology center of the Company was accredited as a "Enterprise Technology Center of Kunming" (昆明市企業技術中心) by Kunming Industry and Information Technology Committee.
	The Company was awarded "Yunnan Province May Day Labor Medal" (雲南省五一勞動獎狀).

Year	Milestones
	The Company was accredited as a "High-tech Enterprise" (高新技術企業) by, among others, the Yunnan Provincial Science and Technology Department.
2015:	Our Company completed the Zhejiang Zhuji Wastewater TOT Project, which expanded our business to the East China coastal area.
	The Company completed an offering of RMB700 million corporate bonds in China.
	With approval from the Yunnan Development and Reform Commission, our Company entered into a contract for the Laos Golden Triangle Wastewater/Running Water BOT Project, which further expanded our business beyond the PRC.
2016:	The Company organized the 13th Round of the Yunnan Province Staff Technical Skills Competition and made a clean sweep of the top three prizes in wastewater treatment as well as quality test and inspection.
	The Company established Dianchi Water (Laos) Wholly-owned Limited Company* (滇池水務（老撾）獨資有限公司).
	The Company established Shuangjiang Dianchi Watertreatment Co., Ltd.* (雙江滇池水務有限公司).
	The Company and the Kunming Dianchi Authority entered into the "Concession Agreement on Wastewater Treatment in Kunming (Complementary)" (昆明市污水處理特許經營權協議（補充協議）) and the "Agreement on Entrusted Operation, Maintenance and Management of the Domestic Wastewater Collecting and Treating Facilities of the Towns and Villages in Dianchi Basin and Bushuiqu, Niulan River (Kunming section)" (滇池流域及牛欄江補水區（昆明段）集鎮、村莊生活污水收集處理設施委託運營維護管理協議) and obtained a 25-year concession of such facilities.
	The Company was recognized as the 2015 "Top 100 Industrial Enterprises" of Kunming.

OUR MAJOR SUBSIDIARIES AND RELEVANT ACQUISITIONS OF EQUITY INTERESTS

Kunming City Wastewater Treatment and Operation Co. Ltd.* (昆明城市污水處理運營有限責任公司) is a limited liability company established in the PRC on June 15, 2005. It is a wholly-owned subsidiary of our Company with its principal business being the operation and management of municipal wastewater treatment services.

Kunming Dianchi Logistics Co. Ltd.* (昆明滇池物流有限責任公司) is a limited liability company established in the PRC on June 15, 2005. It is a wholly-owned subsidiary of our Company with its principal business being the provision of logistics, warehousing, transportation and handling services of sewage and sludge for the treatment of water in Dianchi Lake.

Xundian Dianchi Water Co. Ltd.* (尋甸滇池水務有限公司, formerly known as Xundian County Tongqiu Wastewater Treatment Co. Ltd.* (尋甸縣通球污水處理有限公司)) is a limited liability company established in the PRC on April 30, 2009. It is a wholly-owned subsidiary of our Company with its principal business being the construction and operation of wastewater treatment and recycling facilities, and research and development in the areas of water treatment and reuse technology and equipment. The Company acquired Xundian Dianchi Water Co., Ltd.* from Zhejiang Tongqiu Water Treatment Technology Engineering Co., Ltd.* (浙江通球水處理技術工程有限公司), an independent third party, for the consideration of approximately RMB24.2 million, determined based on appraised value of assets held by Xundian Dianchi Water Co. Ltd., being the Company's first corporate acquisition. The consideration of approximately RMB24.2 million has been fully settled in April 2014. As confirmed by our PRC legal counsel, the said transfer of equity interests has been properly and legally completed and settled, with all applicable regulatory approvals having been obtained.

Yunnan Reclaimed Industry Co. Ltd.* (雲南中水工業有限公司) is a limited liability company established in the PRC on March 28, 2002. It is a wholly-owned subsidiary of our Company with its principal business being the design, construction, operation and management of wastewater treatment and recycling facilities, as well as the development, marketing and provision of consultancy services for reclaimed water.

Fanchang County Dianchi Water Co. Ltd.* (繁昌縣滇池水務有限公司), formerly known as Fanchang County Suncun Wastewater Treatment Co. Ltd.* (繁昌縣孫村污水處理有限責任公司) is a limited liability company established in the PRC on May 8, 2014. It is a wholly-owned subsidiary of our Company, with its principal business being wastewater treatment and recycling, tap water treatment and construction of the relevant water infrastructure projects. The Company acquired Fanchang County Dianchi Water Co. Ltd. from Fanchang County Suncun Town Government* (繁昌縣孫村鎮人民政府), an independent third party, for a consideration of approximately RMB39.8 million which was fully settled on October 9, 2015, determined through a bidding process at an equity exchange. As confirmed by our PRC legal counsel, this transaction was properly and legally completed and settled, with applicable regulatory approvals obtained in May 2016.

Guizhou Bafang Water Co. Ltd.* (貴州八方水務有限公司) is a limited liability company established in the PRC on January 5, 2011. It is a wholly-owned subsidiary of our Company with its principal business being water purification, wastewater treatment and other water businesses related design, construction, management and project investment. The Company acquired Guizhou Bafang Water Co. Ltd. from Lvdi Environmental Technology Co., Ltd.* (綠地環保科技股份有限公司), an independent third party, for a consideration of approximately RMB9.6 million, determined based on appraised value of assets held by the Guizhou Bafang Water Co. Ltd.. The consideration of approximately RMB9.6 million has been fully settled in May 2016, and the acquisition completed in May 2016. As confirmed by our PRC legal counsel, this transaction was properly and legally completed and settled, with all applicable regulatory approvals obtained. As a result of this acquisition, we have further expanded the geographical scope of our wastewater treatment business to outside of the Yunnan Province, the PRC.

Zhuji Dianchi Water Co. Ltd.* (諸暨滇池水務有限公司) is a limited liability company established in the PRC on November 30, 2015. It is a wholly-owned subsidiary of our Company with its principal business being wastewater treatment and recycling, tap water treatment and construction of the relevant water infrastructure projects, and other relevant businesses, the investment, construction and operation of relevant environmental related assets.

Malong Dianchi Water Co. Ltd.* (馬龍滇池水務有限公司) is a limited liability company established in the PRC on August 13, 2015. It is a wholly-owned subsidiary of our Company with its principal business being wastewater treatment and recycling, tap water treatment and construction of the relevant water infrastructure projects and relevant environmental related assets, investment management and consulting.

Ziyun County Dianchi Water Co. Ltd.* (紫雲縣滇池水務有限公司) is a limited liability company established in the PRC on January 12, 2016. It is a wholly-owned subsidiary of our Company with its principal business being wastewater treatment and recycling, tap water treatment and construction of the relevant water infrastructure projects, the investment, construction and operation of relevant environmental related assets and the investment and construction of municipal projects.

Kunming Heertai Environmental Industry & Trade Co. Ltd.* (昆明和而泰環保工貿有限責任公司) is a limited liability company established in the PRC on February 7, 2002. It is owned as to 51% by us, with its principal business being the production and sales of medicament for municipal wastewater treatment, industrial wastewater treatment and running water. Yunnan Wanglida Mining Co. Ltd.* (雲南旺立達礦業有限公司), an independent third party, owns the remaining 49% equity interest in Kunming Heertai Environmental Industry & Trade Co. Ltd.. With approval from Kunming SASAC, on December 16, 2015, the Company entered into an agreement with the then shareholders of Kunming Heertai Environmental Industry & Trade Co. Ltd. in relation to the subscription of equity interests in Kunming Heertai Environmental Industry & Trade Co. Ltd. equivalent to 51% of the total issued share capital, for a consideration of approximately RMB4.6 million. The consideration has been determined based on the appraised value of the projects held by Kunming Heertai Environmental Industry & Trade Co. Ltd.. The consideration of approximately RMB4.6 million has been fully settled in June 2016. As confirmed by our PRC legal counsel, the acquisition of the 51% equity interest in Kunming Heertai Environmental Industry & Trade Co. Ltd. has properly and legally completed and settled, with all applicable regulatory approvals having been obtained.

Haian Libao Water Treatment Co., Ltd.* (海安李堡污水處理有限公司), a company established in the PRC with limited liability on July 7, 2009, is a wholly-owned subsidiary of the Company. It is principally engaged in wastewater treatment, financing, construction, operation, maintenance and management of wastewater treatment facilities and supply of running water.

Haian Qutang Water Treatment Co., Ltd.* (海安曲塘污水處理有限公司), a company established in the PRC with limited liability on July 6, 2009, is a wholly-owned subsidiary of the Company. It is principally engaged in wastewater treatment, financing, construction, operation, maintenance and management of wastewater treatment facilities and supply of running water.

Hongzetianying Water Treatment Co., Ltd.* (洪澤天楹污水處理有限責任公司), a company established in the PRC with limited liability on March 6, 2006, is a wholly-owned subsidiary of the Company. It is principally engaged in construction, operation, maintenance and management of wastewater treatment facilities and supply of running water.

The Company acquired Haian Libao Water Treatment Co., Ltd.* (海安李堡污水處理有限公司), Haian Qutang Water Treatment Co., Ltd.* (海安曲塘污水處理有限公司) and Hongzetianying Water Treatment Co., Ltd.* (洪澤天楹污水處理有限責任公司) from Jiangsu Tianyingsaite Environment and Energy Group* (江蘇天楹賽特環保能源集團有限公司) and Jiangsu Tianying Water Development Co., Ltd* (江蘇天楹水務發展有限公司), both being independent third parties, for an aggregate consideration of RMB80.0 million which was fully paid in January 2017. The acquisition of these three entities constitutes the Nantong Project. As confirmed by our PRC counsel, the acquisition of Nantong Project had been lawfully and duly completed and settled with all necessary approvals obtained from competent regulatory authorities.

OTHER MATERIAL ACQUISITIONS OF WASTEWATER TREATMENT PLANTS AND RUNNING WATER PLANTS

The Company has also acquired, among others, the following wastewater treatment plants and running water plants, which increased our wastewater treatment capacity and marked our expansion into the running water business, respectively.

With approval from Kunming SASAC, we have entered into agreements with our Controlling Shareholder in relation to the acquisition of Gucheng Water Purification Plant* (古城水質淨化廠) and Kunyang Water Purification Plant* (昆陽水質淨化廠), and Yunihe Water Purification Plant* (淤泥河水質淨化廠) on December 31, 2012 and March 8, 2016 for an aggregate consideration of approximately RMB448.9 million. The consideration has been determined based on the appraised value of these plants as assessed by a qualified valuer. Part of the consideration of approximately RMB426.1 million has been settled, with the remainder of the consideration of approximately RMB22.8 million to be paid subsequent to the passing of all regulatory inspection and receipt of all regulatory approvals in respect of these plants. As confirmed by our PRC legal counsel, Yunnan Beichuan Law Firm, the acquisition of Gucheng Water Purification Plant, Kunyang Water Purification Plant and Yunihe Water Purification Plant has properly and legally completed and settled, with all applicable transfer-related regulatory approvals having been obtained.

With approval from Kunming SASAC, we have entered into agreements with Malong County Government* (馬龍縣人民政府), an independent third party, in relation to the acquisition of (i) Malong County No. 1 Running Water Plant* (馬龍第一自來水廠) on July 30, 2015 for a consideration of RMB11.4 million, and (ii) Malong County Dongguang Running Water Plant* (馬龍東光自來水廠) on July 30, 2015 for a consideration of RMB21.8 million. The consideration has been determined based on the appraised value of the said plants as assessed by a qualified valuer. The said consideration has been fully settled. As confirmed by our PRC legal counsel, Yunnan Beichuan Law Firm, the acquisition of Malong County No. 1 Running Water Plant and Malong County Dongguang Running Water Plant has properly and legally completed and settled, with all applicable regulatory approvals having been obtained.

With approval from Kunming SASAC, the Company has entered into an agreement with Xindu Investment in relation to the acquisition of (i) Luolonghe Wastewater Treatment Plant* (洛龍河污水處理廠) and (ii) Laoyuhe Wastewater Treatment Plant* (撈魚河污水處理廠) on August 18, 2014 for a consideration of approximately RMB202 million (subject to potential adjustments with reference to the appraisal to be approved by Kunming SASAC). The consideration has been determined based on the appraised value of these plants as assessed by a qualified valuer. Part of the consideration of approximately RMB186.0 million has been settled, with the remainder of the consideration of approximately RMB16.0 million (subject to potential adjustments) to be paid subsequent to the passing of all regulatory inspection and receipt of our regulatory approvals in respect of these plants. The Company anticipates to settle the remainder of the consideration in the year of 2017 or 2018. This anticipated timetable, however, is tentative, as the passing of the regulatory inspection and receipt of approvals in respect of these plants, together with a settlement report to be prepared by Xindu Investment, are beyond our control. As confirmed by our PRC legal counsel, Yunnan Beichuan Law Firm, the acquisition of Luolonghe Wastewater Treatment Plant and Laoyuhe Wastewater Treatment Plant has properly and legally completed and settled, with applicable transfer-related regulatory approvals having been obtained.

With approval from Kunming SASAC, the Company entered into an agreement with Yiliang County Government* (彝良縣人民政府) in relation to the acquisition of the Yiliang County Wastewater Treatment Plant* (彝良縣污水處理廠) on May 27, 2015 for a consideration of approximately RMB20.0 million. The consideration has been determined based on the appraised value of Yiliang County Wastewater Treatment Plant. The consideration of approximately RMB20.0 million has been fully settled on October 12, 2015. As confirmed by our PRC legal counsel, Yunnan Beichuan Law Firm, the acquisition of Yiliang County Wastewater Treatment Plant has properly and legally completed and settled, with all applicable regulatory approvals having been obtained.

With approval from Kunming SASAC, the Company entered into an agreement with Zhuji City Paitou County Government* (諸暨市牌頭鎮人民政府) in relation to the acquisition of Zhuji City Paitou Town Wastewater Treatment Plant* (諸暨市牌頭鎮污水處理廠) on December 1, 2015 for a consideration of approximately RMB24.0 million. The consideration has been determined based on the appraised value of the Zhuji City Paitou Town Wastewater Treatment Plant as assessed by a qualified valuer. The consideration of approximately

RMB24.0 million has been fully settled in January 2016. As confirmed by our PRC legal counsel, Yunnan Beichuan Law Firm, the acquisition of Zhuji City Paitou Town Wastewater Treatment Plant has properly and legally completed and settled, with all applicable regulatory approvals having been obtained.

OUR ASSOCIATES

Yunnan Dianchi Information Construction and Management Co. Ltd.* (雲南滇池信息建設管理有限公司) is a limited liability company established in the PRC on May 14, 2012. It is a joint-venture between our Company and Yunnan Maoyun Municipal Construction Co. Ltd.* (雲南茂雲市政工程有限公司) with an agreed capital contribution of RMB4.0 million from our Company. As at the Latest Practicable Date, our Company has paid RMB1.0 million, with the remaining RMB3.0 million to be paid at a time to be agreed between our Company and Yunnan Maoyun Municipal Construction Co. Ltd.. Its principal business is municipal engineering, earthwork engineering, transmission and transformation engineering, communication pipeline engineering, building intelligent system project, environmental engineering, electric power engineering, computer systems integration and integrated wiring and economic information consultation. We currently hold 40% equity interest in Yunnan Information Construction and Management Co. Ltd., with the remaining 60% equity interest held by Yunnan Maoyun Municipal Construction Co. Ltd..

Yunnan Dianchi Jiajing Environment Protection Technology Co. Ltd.* (雲南滇池嘉淨環保科技有限公司) is a limited liability company established in the PRC on April 13, 2012. It is a joint-venture between our Company and Suzhou Jiajing Environment Protection Technology Co. Ltd.* (蘇州嘉淨環保科技股份有限公司), with capital contribution of RMB8.0 million from our Company made in March 2012 and in February 2014. Its principal business is research and promotion of environmental related technology, development, sales and installation of wastewater treatment and ecological facilities, import and export of goods and technology and related technical advisory services. We currently hold 40% equity interest in Yunnan Dianchi Jiajing Environment Protection Technology Co. Ltd., with the remaining 60% held by Suzhou Jiajing Environment Protection Technology Co. Ltd..

Kunming Zaojingquanxiang Biotechnology Co. Ltd.* (昆明藻井泉香生物科技有限公司) is a limited liability company established in the PRC on August 12, 2010. Its shareholders are our Company, Mr. Wen Zhongliang, Yunnan Haiersi Bio-industry Investment Co. Ltd.* (雲南海爾斯生物產業投資有限公司), and Mr. Zhang Sai, with its principal business being the research, development, and production of algae and other biological products. We currently hold 35% equity interest in Kunming Zaojingquanxiang Biotechnology Co. Ltd., with capital contribution of RMB8.9 million from our Company made in 2014. The remaining 65% equity interest in Kunming Zaojingquanxiang Biotechnology Co. Ltd. is held by various independent third parties, namely Mr. Wen Zhongliang as to 54.4%, Yunnan Haiersi Bio-industry Investment Co. Ltd. as to 9.3% and Mr. Zhang Sai as to 1.3%.

OUR SHAREHOLDING AND GROUP STRUCTURE

The following table sets out the shareholding of our five Shareholders as of December 31, 2016[6]:

Shareholders	Number of Shares held	Approximate Shareholding percentage
1. Kunming Dianchi Investment[1]	689,886,000	95.82%
2. Kunming DIG[2]	21,900,000	3.04%
3. Kunming IDI[3]	2,738,000	0.38%
4. Kunming SAMO[4]	2,738,000	0.38%
5. Kunming Xindu[5]	2,738,000	0.38%
Total:	720,000,000	100.00%

Notes:

(1) For details of the background of Kunming Dianchi Investment, please see the sections headed "History, Development and Corporate Structure" and "Relationship with the Controlling Shareholder" in this prospectus.

(2) Kunming DIG is a company established under the laws of the PRC with a registered capital of RMB747,200,000, engaged in the business of financing major infrastructure assets and projects within Kunming city, operating state-owned assets, property development, investing in and management of agriculture and water related projects.

(3) Kunming IDI is a company established under the laws of the PRC with a registered capital of RMB1,500,000,000, engaged in the business of investment in and management of projects commissioned by the government, asset management, industrial development and land development.

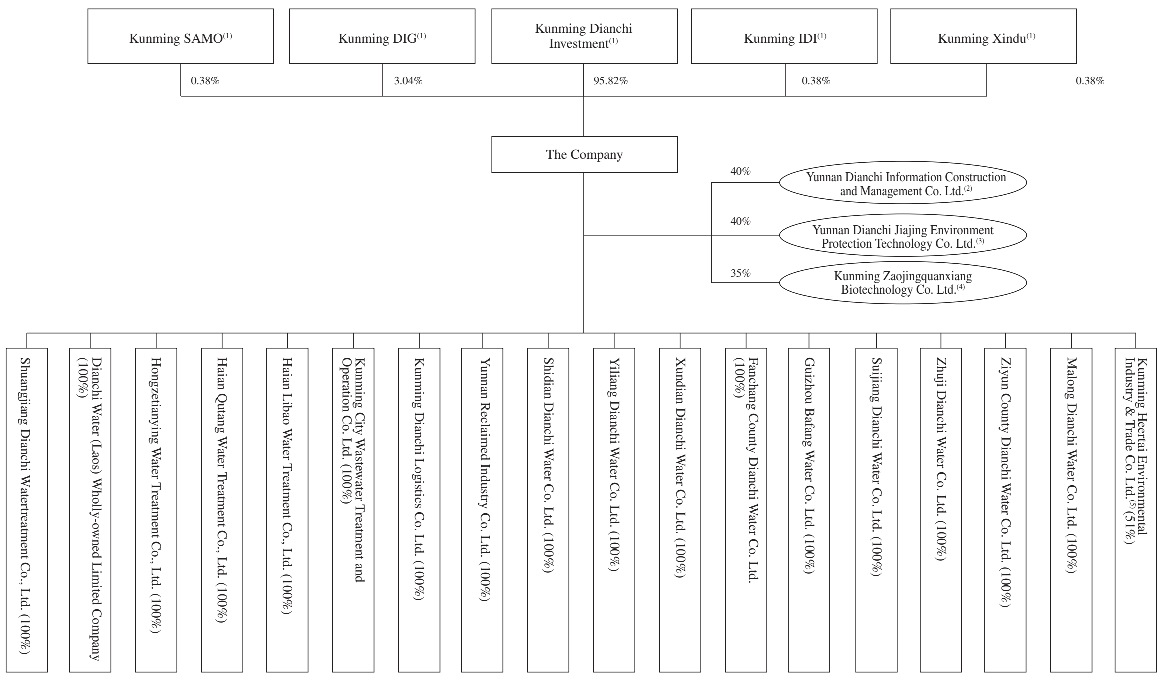
(4) Kunming SAMO is a company established under the laws of the PRC with a registered capital of RMB2,541,548,100, engaged in the holding of equity interests of state-owned enterprises and management of state-owned assets.

(5) Kunming Xindu is a company established under the laws of the PRC with a registered capital of RMB50,000,000, engaged in the business of infrastructure construction within Kunming city, integrated land development, dismantling, management and development of municipal facilities projects, landscaping projects, and property management of municipal facilities projects.

(6) There has been no change in the shareholding percentage of the five Shareholders during the Track Record Period.

SHAREHOLDING STRUCTURE PRIOR TO THE GLOBAL OFFERING AND IMMEDIATELY FOLLOWING THE COMPLETION OF THE GLOBAL OFFERING

The following chart sets out our shareholding structure immediately prior to the Global Offering:



Notes:

(1) The 100% beneficial interests of Kunming Dianchi Investment, Kunming DIG, Kunming IDI, Kunming SAMO and Kunming Xindu are ultimately owned by Kunming SASAC.

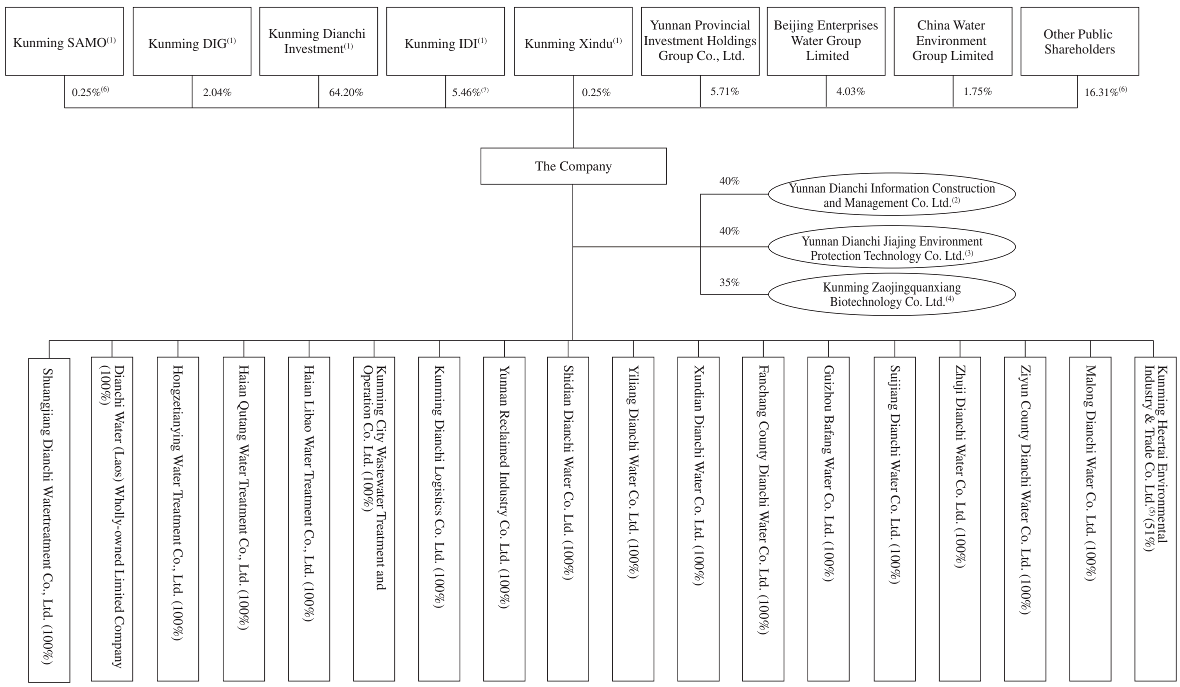
(2) The remaining 60% interest in Yunnan Dianchi Information Construction and Management Co. Ltd is owned by Yunnan Maoyun Municipal Construction Co. Ltd., an independent third party.

(3) The remaining 60% interest in Yunnan Dianchi Jiajing Environment Protection Technology Co. Ltd. is owned by Suzhou Jiajing Environment Protection Technology Co. Ltd., an independent third party.

(4) The remaining 65% interest in Kunming Zaojingquanxiang Biotechnology Co. Ltd. is owned by various independent third parties, namely Mr. Wen Zhongliang as to 54.4%, Yunnan Haiersi Bio-industry Investment Co. Ltd. as to 9.3% and Mr. Zhang Sai as to 1.3%.

(5) The remaining 49% interest in Kunming Heertai Environmental Industry & Trade Co. Ltd. is owned by Yunnan Wanglida Mining Co. Ltd., an independent third party.

The following chart sets out our corporate structure immediately after the completion of the Global Offering (assuming an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment Option is not exercised):



Notes:

(1) The 100% beneficial interests of Kunming Dianchi Investment, Kunming DIG, Kunming IDI, Kunming SAMO and Kunming Xindu are ultimately owned by Kunming SASAC.

(2) The remaining 60% interest in Yunnan Dianchi Information Construction and Management Co. Ltd. is owned by Yunnan Maoyun Municipal Construction Co. Ltd., an independent third party.

(3) The remaining 60% interest in Yunnan Dianchi Jiajing Environment Protection Technology Co. Ltd. is owned by Suzhou Jiajing Environment Protection Technology Co. Ltd., an independent third party.

(4) The remaining 65% interest in Kunming Zaojingquanxiang Biotechnology Co. Ltd. is owned by various independent third parties, namely Mr. Wen Zhongliang as to 54.4%, Yunnan Haiersi Bio-industry Investment Co. Ltd. as to 9.3% and Mr. Zhang Sai as to 1.3%.

(5) The remaining 49% interest in Kunming Heertai Environmental Industry & Trade Co. Ltd. is owned by Yunnan Wanglida Mining Co. Ltd., an independent third party.

(6) Kunming SAMO is expected to subscribe for Offer Shares under the International Offering, the amount of which has not yet been determined and this is therefore not reflected in the shareholdings of Kunming SAMO and the other public Shareholders as set out in the chart above. Please refer to the announcement of results of allocations for details of the final subscription amount of Kunming SAMO. Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules — Waiver in relation to subscription of H Shares by certain existing shareholders" for further information.

(7) This includes 0.25% interest held directly by Kunming IDI as well as an approximate 5.2% interest to be subscribed by Kunming Industrial Development under the International Offering pursuant to a cornerstone investment agreement. Please refer to the section headed "Cornerstone Investors" in this prospectus for further information.

OVERVIEW

We are a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, and a provider of integrated water-related services, including running supply services, in China's water industry. We enjoy exclusive rights to provide wastewater treatment services in Kunming and some other parts of China. According to Frost & sullivan, we are the largest municipal wastewater treatment enterprise in Yunnan Province, the PRC, in terms of capacity, and we are a technologically advanced wastewater treatment enterprises in the PRC, providing integrated services in the business segments of municipal wastewater treatment, reclaimed water supply, running water supply and other water-related services. We are a core enterprise implementing the PRC's strategic goal to treat pollutants at Dianchi Lake, the largest lake in Southwest China and one of three lakes in China identified by the PRC government as key focus area of pollution treatment, under the auspices of the national and local PRC governments.

For our wastewater treatment business, according to Frost & Sullivan, we ranked first in Yunnan Province, the PRC, in terms of municipal wastewater treatment capacity as of December 31, 2015, accounting for 34.0% of the designed wastewater treatment capacity and 45.1% of the actual volume of wastewater treated in Yunnan Province, the PRC. As of the Latest Practicable Date, we had in operation a total of 26 wastewater treatment plants, of which 13 are in Kunming and 13 are in other parts of China, with a total wastewater treatment capacity of 1.6 million m^3 per day. We also had one wastewater treatment plant under construction in Yunnan Province, the PRC, and one wastewater treatment plant under development in Laos. Additionally, we have under our management services facilities with a total designed wastewater treatment capacity of 0.5 million m^3 per day. With our technologically advanced facilities, independently developed patents and strong management skills, we have been able to maintain low costs while providing high quality wastewater treatment services. As of December 31, 2016, 93.7% of our designed wastewater treatment capacity reached the National Class I Standard A standard.

For our reclaimed water business, as of the Latest Practicable Date, we had six of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 44,000 m^3. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming. Volume generated from our reclaimed water supply business had achieved a 6.6% CAGR from 2014 to 2016. We expect this growth momentum to continue as we expand our reclaimed water business.

For our running water business, we have extended our business chain to include the supply of running water. As of the Latest Practicable Date, we had three running water plants in operation in Yunnan Province, the PRC, one running water plant under construction and one running water plant under development in Yunnan Province, the PRC, and one running water plant under development in Laos.

Our projects in Laos mark our first step expanding into the Southeast Asian market, as well as our commitment to China's national strategy of "One Belt, One Road".

As of the Latest Practicable Date, we had a total of 34 plants under concession agreements, of which 29 were in operation, two were under construction and three were under development. The durations of our concession arrangements are typically 30 years. We adopt the TOO, BOT and TOT project models for our plants. For details of these project models, please see the section headed "— Our Businesses — Our Projects — Project Models" in this prospectus.

Our total revenue was RMB735.2 million, RMB825.1 million and RMB914.9 million for 2014, 2015 and 2016, respectively. Our gross profits for the same periods were RMB365.4 million, RMB378.1 million and RMB425.5 million, respectively. Revenue from our wastewater treatment service accounted for 92.6%, 85.2% and 83.7% of the total revenue for 2014, 2015 and 2016, respectively and revenue from reclaimed water supply, running water supply and management services accounted for the majority of the rest of our revenue for the same periods.

The table below set forth a summary of our operational data during the Track Record Period:

	As of December 31,		
	2014	2015	2016
Capacity ('000 m^3 per day)			
Wastewater treatment	1,127	1,165	1,544
Reclaimed water supply	32	44	44
Running water supply	–	46	56

	Year ended December 31,		
	2014	2015	2016
Volume ('000 m^3 per period indicated)			
Wastewater treatment	423,420	454,159	517,911
Reclaimed water supply	5,146	5,790	5,846
Running water supply	–	1,627	4,749

OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

Leading enterprise in the Yunnan wastewater treatment industry with a strong track record of expansion in China

We are a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, and a provider of integrated water-related services in China's water industry. We enjoy exclusive rights to provide wastewater treatment services in Kunming and some other parts of China. According to Frost & Sullivan, we ranked first in Kunming and Yunnan Province, the PRC, in terms of municipal wastewater treatment capacity as of December 31, 2015, accounting for 94.4%* and 34.0% of the designed municipal wastewater treatment capacities in Kunming and Yunnan Province, the PRC, respectively. We are also the largest municipal wastewater treatment enterprise in Kunming and Yunnan Province, the PRC, in terms of wastewater treatment volume for the year ended December 31, 2015, accounting for 97.2% and 45.1% of the wastewater treatment volumes of Kunming and Yunnan Province, respectively. Additionally, we are the most important wastewater treatment enterprise in terms of pollution reduction in Kunming and Yunnan Province, the PRC. Our COD and NH_3-N emission reduction quotas for 2015 accounted for 96.0% and 53.5% of the total quotas of Kunming, and 95.1% and 45.9% of those of Yunnan Province, respectively.

We are also an industry leader in effluent quality and energy efficiency in Yunnan Province, the PRC, and have participated in setting the provincial industry standards for wastewater treatment services. With our outstanding industry reputation and brand recognition, we are in a strong strategic position to capitalize on our strength in Yunnan's municipal wastewater treatment industry, so as to obtain flexible financing, sustain profitability and fuel our growth into other regions in China and Southeast Asia.

By leveraging our industry reputation, technical know-how and management expertise, we are able to acquire new projects and expand our businesses along the water industrial chain. From 2010 to the Latest Practicable Date, through investment methods such as asset acquisitions, equity purchases and Public-Private-Partnership, we have added 26 wastewater plants to our portfolio with total investments amounting to approximately RMB2.8 billion. Through our acquisition activities, our business expanded into new areas such as the Guizhou, Anhui, Zhejiang and Jiangsu Provinces, as well as Laos.

* The remaining 5.6% is comprised of municipal wastewater treatment service providers who had been operating in Kumming prior to the granting of concession right to us by the Kumming municipal government in 2011. These municipal wastewater treatment service providers are unrelated to us or our Controlling Shareholder and are not allowed to operate any wastewater treatment facilities in Kunming other than what they had operated before 2011. All other municipal wastewater treatment facilities in Kunming, including any newly built facilities, will have to be operated by us under the concession agreement. As a result, these small operators who remain in business for historical reason do not affect our overall exclusivity position in Kunming under the concession agreement.

A pioneer in technological innovation with strong technical and R&D capabilities in the industry, as reflected by our proprietary patents and industry-leading effluent quality and energy efficiency

We have been providing wastewater treatment services of superior quality, delivering benefits not only to our customers but also to the broader society. With our emphasis on the development of proprietary technology and knowhow, we are able to develop patents applicable to our treatment processes, optimize the facility operation and management process, and develop, customize and adapt our technologies to different geographical conditions and wastewater containing different pollutants, thereby delivering superior results both in terms of effluent quality and cost efficiency.

We strongly support innovation and application of new techniques and know-how into our operational process. By undertaking national, provincial, municipal and our own research projects, we had obtained eleven registered patents and seven registered copyrights, with an additional five patent applications pending further examination as of the Latest Practicable Date. The application of our innovations has allowed us to reduce energy consumption, improve effluent quality, increase labor productivity and decrease other production costs. For the year ended December 31, 2016, most quality indicators of our effluent in Kunming main city area not only significantly surpassed Standard I Class A discharge standard, which is the highest quality standard for wastewater treatment in the PRC, but also approached the Surface Water Standard III, which is a quality standard for water suitable to serve as the source water of domestic running water. Please see the section headed "— Our Businesses — Our Projects — Our Facilities in Commercial Operation" in this prospectus. While maintaining our high quality standard, we have been able to reduce average unit wastewater treatment costs over the years. From 2012 to 2016, the per m^3 energy consumption of our facilities in compliance with the Standard I Class A discharge standard decreased by approximately 17.2%, from 0.29 kWh/m^3 to 0.24 kWh/m^3. The per m^3 energy consumption of our facilities in compliance with the Standard I Class A discharge standard in 2015 was 0.24 KWh/m^3, which is 20.0% lower than the 2015 national industry average of 0.30 kWh/m^3 according to Frost & Sullivan. Meanwhile, the average power consumption in our Kunming No. 5 and No. 7 & 8 Water Purification Plants were 0.16 kWh/m^3 and 0.20 kWh/m^3 in the year ended December 31, 2015, respectively; these average power consumption levels ranked us among the top 11% and 20%, respectively, of all wastewater treatment plants in China in compliance with the Standard I Class A discharge standard in 2015, according to Frost & Sullivan.

We are a firm believer of technology, and consider technological advancement as the key driver for growth. Maintaining technological competitiveness has always been one of our top priorities. We are currently collaborating with domestic and foreign institutions such as Tsinghua University of the PRC, HKF Technology L.L.C of the USA, and Lavaris Technologies GmbH of Germany, to conduct research on wastewater treatment, reclaimed water supply and other water-related issues. During the Track Record Period, our R&D team had undertaken 20 national, provincial and municipal research projects, incurred research-related expenses of RMB37.5 million and recognized as income government grants related to R&D activities amounting to RMB13.4 million; we improved our oxidation ditch, A^2/O, SBR, and MBR wastewater treatment processes and designed the Dianchi River Basin Reclaimed Water Utilization Information Platform (滇池流域再生水利用綜合信息平台) and a real-time energy cost monitoring system. As a testament to our position as a leading wastewater treatment service provider, we have been invited since 2011 to draft the operational manuals and handbooks that set national and provincial industry standards for operating wastewater treatment plants in Yunnan and the PRC.

Well-positioned to benefit from the steady growth of the municipal wastewater treatment industry and from the PRC government's increasing focus on environment protection and favorable industry policies

We are in an industry that has experienced steady growth over the recent years. According to Frost & Sullivan, the urbanization rate in the PRC is still at a relatively low level, suggesting potential for growth of the water industry. From 2009 to 2015, municipal wastewater treatment capacity in the PRC grew at an annual rate of 8.3% and treatment volume grew at an annual rate of 8.7%. Frost & Sullivan expects that, from 2015 to 2020, wastewater treatment capacity in the PRC will grow at an annual rate of 5.3% to reach 218.0 million m^3 per day, and that treatment volume will grow at an annual rate of 5.5% to reach 66.3 billion m^3 in 2020. With our industry and social reputation, technical know-how and management expertise, we are well positioned to benefit from the industry growth and expand our business.

The PRC government in recent years has promulgated a large number of favorable laws and policies to promote the growth of the wastewater treatment industry. For example, the 13th Five-Year Wastewater Treatment Plan stipulates that the treatment rates of municipal wastewater in cities and towns are to reach 95% and 85%, respectively, by 2020, and the capacity of upgraded and renovated municipal wastewater treatment facilities will reach 42.20 million cubic meters per day, among which, the facilities in cities and counties will have capacities of 36.39 million cubic meters per day and 5.81 million cubic meters per day, respectively, in the 13th Five-Year-Period. The Action Plan targets for all municipal wastewater treatment facilities located in and discharging into certain sensitive areas, such as major lakes and reservoirs, to reach Standard I Class A discharge standard by the end of 2017. In addition, the Action Plan targets for 70% of the water in the seven key drainage basins to reach water quality of Surface Water Standard III or above by 2020, whereas according to Frost & Sullivan, water quality of the entire Dianchi Lake is below Surface Water Standard V. Moreover, a circular issued by the NDRC, the MOF and the MOHURD on the Relevant Issues Concerning the Formulation and Adjustment of the Charging Standard for Sewage Treatment (《關於制定和調整污水處理收費標準等有關問題的通知》) requires the implementation of the tariff pricing standards that provide reasonable profits for wastewater treatment providers and protect the legitimate interests of such operators. Furthermore, according to the Implementation Directives on Cooperation between Government and Social Capital for Water Pollution Prevention and Treatment (《關於推進水污染防治領域政府和社會資本合作的實施意見》) published on April 9, 2015, Private Public Partnerships are to be highly promoted in the wastewater treatment industry. As a key enterprise in charge of Dianchi Lake and municipal wastewater treatment in Yunnan Province, the PRC, we have received strong support from all levels of government.

As a major municipal wastewater treatment enterprise with primary focus on southwestern China, we are entitled to enjoy preferential enterprise income tax rate from 2011 to 2020 pursuant to the "Developing Western China Policy" and tax holidays that provide three years' corporate income tax exemptions (followed by a 50% reduction in corporate income tax for the next three years) for some of our new or newly upgraded wastewater treatment projects. We have also been accredited as a "High-tech Enterprise" (高新技術企業) by, among others, the Yunnan Provincial Science and Technology Department since 2014, which allows our projects to enjoy a 15% enterprise income tax rate. For details on the preferential tax policies applicable to our business, please see the section "Financial Information — Factors Affecting our Results of Operations and Financial Condition — Taxation" in this prospectus.

We may also benefit from the PRC government's increasing focus on environment protection as water quality standards for the wastewater treatment services industry become increasingly stringent. Because of our leading position in both wastewater treatment technology and operations management, as of December 31, 2016, 93.7% of our designed wastewater treatment capacity reached the National Class I Standard A standard, which is the highest national standard for wastewater treatment, allowing us to further capitalize on the increasingly strict environmental regulatory landscape to acquire more projects and procure more government support.

Unparalleled competitive edge in the reclaimed water supply business in Yunnan Province, the PRC

According to Frost & Sullivan, we ranked first in Yunnan Province, the PRC, in terms of the capacity for producing reclaimed water in 2015. We have an unparalleled competitive edge in supplying reclaimed water in our service areas as we primarily operate our business in Kunming. According to Frost & Sullivan, water resources in the area around Dianchi Lake is less than 300 m^3 per capita per year, approximately one tenth of the PRC average and below the UN's "absolute" scarcity level (<500 m^3 per capita per year), indicating a potentially high demand for using reclaimed water. In addition, we hold concession agreements over the wastewater treatment services in Kunming, thereby controlling the sole source of raw material for reclaimed water in the main urban area. Moreover, we can produce reclaimed water at a low cost, due to the high quality of wastewater treatment effluent, thus allowing us to supply reclaimed water at a price far cheaper than that of running water. Furthermore, we control Kunming's only reclaimed water distribution pipeline network in the main urban area, thus reinforcing our natural monopoly position. We have also received substantial subsidies from the local governments relating to our reclaimed water supply business. In 2015, we received RMB35.0 million government subsidies for the construction of reclaimed water supply pipeline networks. As of December 31, 2016, we had a total of six wastewater treatment plants capable of producing reclaimed water with an aggregate supply capacity of 44,000 m^3 per day and with a quality that meets the relevant PRC reclaimed water quality standards. According to Frost & Sullivan, as a result of increasingly stringent energy-saving and emission-reduction government imperatives in the PRC, there will be great potential for the reclaimed water business.

Kunming and its surrounding areas provide us with a great opportunity to develop our business. We have completed parts of the distribution pipeline network, reaching a sufficient scale to supply reclaimed water in the city. Consisting of pipelines with an aggregate length of over 170 kilometers and over 40 reclaimed water supply points, our network supplies reclaimed water to over 200 municipal parks and residential areas within Kunming. Volume of our reclaimed water supply business had achieved a 6.6% compounded annual growth during the Track Record Period. The weighted average unit price for the year ended December 31, 2016 was RMB1.36 per m^3 (including VAT), while the unit price of running water in Kunming started from RMB3.45 per m^3 (including VAT) for the same period. Although reclaimed water is not a substitute for running water, we are rapidly expanding our reclaimed water supply pipeline network, and we believe we will see a significant increase in reclaimed water revenue due to the city's high water demand, the high quality of our reclaimed water, and the significant cost advantage of reclaimed water over running water.

A resilient business with a track record of prudent financial performance

Our business is resilient to different economic cycles. With an increasing demand for wastewater treatment and other water-related services resulting from China's population growth, rising urbanization rate and increased awareness of environmental protection, our services are essential to households, enterprises and local governments. Given the non-discretionary nature of our services, we receive stable wastewater intake, which, together with our fixed tariff, provides a reliable stream of revenue. Our concession contracts also provide us with guaranteed minimum purchases from the governments and built-in price adjustment mechanisms to protect us from fluctuating water treatment volumes and rising expenses. In addition, our concession rights grant us regional exclusivity, such that no one else may compete with us once we service a particular area. With all of our existing concession rights being longer than 20 years, we have a good visibility as to our business and revenue prospects. For example, even during the global financial crisis in 2008 and 2009, our predecessor companies were able to continue to grow our wastewater treatment capacity and treatment volume.

During the Track Record Period, we have maintained a strong financial position with stable earnings and low leverage, demonstrating our dedication to protecting our Shareholders' value. Our profit after income tax was approximately RMB245.5 million, RMB237.6 million and RMB275.7 million for the years ended December 31, 2014, 2015 and 2016, respectively. Our net gearing ratio, calculated as net debt divided by total capital, was 26.5%, 28.0% and 30.1% as of December 31, 2014, 2015 and 2016, respectively.

Experienced management team and talented technical personnel

Our business benefits from an experienced management team. Our managers have substantial management experience and resources in the wastewater treatment and water supply industries. Our managers have extensive knowledge in business development, operation management, investment management, finance and human resources, and their in-depth understanding of the relevant industries and markets in Yunnan Province, the PRC, as well as other parts of China help us make sensible business decisions and formulate farsighted expansion plans. On average, our senior managers have over 20 years of industry and relevant professional experience. Our management's expertise, dedication, prudence and foresight are the keys to our business achievement and growth. For example, our chairperson, executive Director and general manager, Ms. Guo Yumei, has worked in the wastewater treatment industry for more than 25 years. She was a project leader in the Research and Comprehensive Demonstration on Technologies of Water Contamination Control and Improvement of Aquatic Environment in Cities in Dianchi Lake Basin (滇池流域城市水污染控制及水環境治理技術研究與綜合示範) among the national 12th Five-Year-Plan Major Science and Technology Program for Water Pollution Control and Treatment (十二五水體污染控制與治理科技重大專項課題), and was responsible for the research projects such as Research and Project Demonstration on Key Technologies of Improvement of Aquatic Environment of Old Yunliang River of Kunming (昆明市老運糧河水環境改善關鍵技術研究與工程示範). She was an author and editor of the "Technical Specifications for Operation, Maintenance and Safety of Municipal Wastewater Treatment Plants in Kunming, Yunnan Province" (雲南省城鎮污水處理廠運行維護及安全評定標準), was recognized as an "Outstanding Female Leader in Yunnan" (雲南省三八紅旗手) in 2014, one of the "10th Batch of Young and Middle-aged Academic and Technology Leaders of Kunming" (昆明市第十批中青年學術和技術帶頭人) in 2012 and received the "Third Prize of Yunnan Province Science and Technology Award" (雲南省科學技術獎勵三等獎) in 2007 and the "Third Prize of Kunming Science and Technology Award" (昆明市科技進步三等獎) in 2014. She was also named as a "Leader in Energy Saving and Emission Reduction during the 11th Five-Year-Plan in Yunnan Province" (雲南省"十一五"期間節能減排工作先進個人) and a "2008–2012 Leader in Municipal Wastewater and Domestic Sewage Treatment Facilities Development in Yunnan Province" (雲南省2008年–2012年城鎮污水生活垃圾處理設施建設先進個人) by the Yunnan provincial government in 2011 and 2013, respectively.

Our management team is supported by a skilled workforce, some of whom have studied or trained abroad in Germany, Japan, Switzerland, and the USA. We believe this pool of highly skilled workers is essential for the efficient and effective execution of our projects, and we are dedicated to developing the expertise and know-how of our employees through continuous training programs. Moreover, we have designed a competitive compensation scheme and promotion system to incentivize our employees. As of December 31, 2016, 39.4% of our employees hold bachelors' degree or above, and 40.9% of the employees are skilled technicians. As a result, we were recognized as a "Leading Employer of Kunming for Talented Employees" (昆明市人才工作先進單位), in August 2012, and were among the first to be recognized as an "Exemplary Employer of Kunming for Talented Employees" (昆明市人才工作示範單位) in December 2012. In May 2016, we sent employees to compete in the 13th Round of the Yunnan Province Workers Technical Skills Competition, and won the best wastewater treatment technician prize, and the best wastewater quality test and inspection technician prize. Our excellent technical execution capability thus allows us to maintain our competitive edge in operations management skill.

Due to the skill and expertise of our managers and our workforce, we are able to operate our wastewater treatment plants in Kunming with a smaller workforce than the national average for similar facilities. According to Frost & Sullivan, our average cubic meter of wastewater treated per person per year for the year ended December 31, 2015 was approximately 1.3 million m^3, while the national average was approximately 0.4 million m^3. As of December 31, 2016, the actual number of employees engaged in the operation of our facilities in Kunming was approximately 587, significantly smaller than the typical number of over 1,000 employees for similarly sized facilities under the "Standard for Municipal Wastewater Treatment Project Construction" (《城市污水處理工程項目建設標準》) promulgated by the then Ministry of Development of the PRC in on June 1, 2001 without compromising the quality of our effluent. Our industry-leading operational management skill thus allows us to sustain the profitability of our operations. Our operational efficiency is also reflected through our operating margin, which was 41.8%, 37.8% and 42.7% for 2014, 2015 and 2016, respectively.

OUR STRATEGIES

Our objective is to become a leading integrated water and environmental protection services provider in the PRC. In this connection, we intend to seize the development opportunities provided by the policy of "One Belt One Road" and the aims of building of amore ecological Yunnan and China, to strengthen our core businesses of wastewater treatment and reclaimed water supply, to expand our geographic coverage and to extend our services. In particular, we will strive to implement the following business strategies:

Expand our services to new geographical areas, with primary focus on relevant regions in China, and selected markets in Southeast Asia and South Asia

By leveraging our competitive advantages in brand reputation, management efficiency and technical skills, we intend to actively seek cooperative opportunities with various levels of local governments to extend our geographical coverage, expand our market share and increase our brand recognition. We intend to aggressively expand our businesses in China, and to establish footholds in Southeast Asia and South Asia. We plan to selectively acquire smaller operators who have difficulties competing in today's more stringent regulatory environment, and in areas where we can leverage our technical know-how and management expertise to achieve reasonable returns. As of the Latest Practicable Date, we were in the process of constructing several wastewater treatment plants, and had established our businesses in Yunnan, Guizhou, Anhui and Zhejiang Provinces.

Following the lead of the PRC government's "One Belt, One Road" strategy, we intend to take advantage of the PRC government's funding and policy support and the investment opportunities provided by funds focused on infrastructure development to extend our services to our neighboring regions and enter the Southeast and South Asian markets through Public-Private-Partnership and other investment methods. We believe our strategic location and our industry competitiveness make us uniquely suitable for the expansions into Southeast and South Asian countries, such as Laos, where wastewater treatment infrastructure is under-developed, the urbanization rate is low and may offer potentially high returns. As of the Latest Practicable Date, we have obtained concession agreements to construct and operate a wastewater treatment plant and a running water supply plant in Laos, thereby establishing an international footprint and further expanding our geographical coverage. We have also signed a non-binding memorandum of understanding with the Lahore Development Authority in Pakistan, where we will conduct feasibility study of BOT wastewater treatment projects in Lahore and the Lahore Development Authority will facilitate us in identifying the site and design upon which the potential projects can be constructed and provide us with the necessary permits and licenses. There are no capital commitment or other obligation for us under this memorandum of understanding, which is intended to facilitate our investigation of and potential expansion into the Pakistani market. As of the Latest Practicable Date, we had not identified any potential business opportunities or entered into any contractual arrangements pursuant to this memorandum of understanding. Our wastewater projects under construction in Laos and the Pakistan memorandum of understanding are the first steps of our development outside of China. We are still at the early stages of our international expansion, and as of the Latest Practicable Date, have not identified other projects and have not signed any other definitive agreements outside of the PRC. Mr. Luo Yun, our Executive Director, heads our expansion initiative and is responsible for the identification and evaluation of projects outside of China. Mr. Luo and his team are periodically provided with reports and market updates regarding potential acquisition targets by industry consultants and other independent third parties. As with domestic projects within China, we will evaluate each international project on its individual merits by assessing factors such as expected return, payback period and risk profile, and will also prudently assess the political, economic and regulatory environment of the relevant jurisdictions before deciding to pursue any of the international projects.

Extend our service coverage to include both upstream and downstream water businesses and other ecology-related businesses, with a primary focus on wastewater treatment, reclaimed water supply and running water supply businesses

We intend to extend our service coverage along the water industry chain from our core wastewater treatment business to include both upstream running water and downstream reclaimed water businesses by leveraging our superior industry expertise, R&D capability and management skills. We have so far made substantial progress in expanding our business scale and have achieved synergy. During the Track Record Period, we have significantly increased our running water capability and operational management skill through the acquisition of Malong County No. 1 Running Water Plant and Malong Dongguang Water Plant. As of the Latest Practicable Date, we had completed the construction of the Shidian County No. 2 Running Water Supply Plant and had three running water plants either under construction or development. To further develop our reclaimed water business, we plan to enter into exclusive concession agreements with local governments, construct additional reclaimed water supply pipeline networks and seek new types of customers such as industrial users.

We believe the PRC's increasingly stringent environmental laws, policies and supervisions will be beneficial to us. We plan to capitalize upon our environment protection knowledge, management skills and innovation incentive system to expand our business into industrial wastewater treatment, solid waste treatment, river basin treatment and other environmental engineering businesses where the opportunities arise. Specifically, we intend to enter the industrial wastewater treatment industry because, due to the complexity of pollutants in industrial wastewater as compared to municipal wastewater and the resulting high entry barrier, we could utilize our technical expertise to expand our market share and achieve potentially higher returns.

Build an integrated technological innovation system, apply innovations to drive our growth and solidify our technical competitiveness

We plan to increase our investment in the development and application of new technologies, in order to increase our profitability through technological breakthroughs in key industry areas and the extension of our existing techniques' applicability. We believe that these innovations will allow us to enjoy higher profitability and a sustainable growth in the wastewater treatment, reclaimed water supply and running water supply industries.

Supported by national, provincial and municipal research projects, we have built and intend to further improve our own R&D center, to create an integrated research and innovation platform that includes research design, project planning, experimental production and practical application, and to leverage this national research platform to recruit R&D specialists and to obtain first-class research facilities. In addition to further developing and optimizing proprietary technologies and operational know-hows that have been extensively used in our treatment process, we also actively seek domestic and international cooperation with leading wastewater treatment service providers and environmental protection institutions to explore applications of advance technologies. For example, we have been collaborating with U.S. and European universities and corporations to develop new wastewater treatment methods and to acquire world-leading techniques to increase treatment volume and efficiency at our plants. We intend to promote new methods and techniques to other wastewater treatment facilities and improve the effluent quality of those facilities, thereby expanding our market influence and stimulating our growth. We also plan to expand our business areas by utilizing our technological capability. For example, we intend to enter into the business of industrial wastewater treatment, where our R&D skills will offer assistance because new entrants must navigate through different types of pollutants and different execution methods, and each task requires research skills. We have also been conducting a research project on the replenishment of a municipal closed water body by using reclaimed water and its quality improvement in Cui Lake Park in Kunming in order to further develop our river basin treatment capability and establish ourselves as a comprehensive environmental engineering services provider. We believe investment in our R&D capability will be the key to our future growth.

Strive for prudent financial and operational management and deliver sustainable returns to our Shareholders

We strive for prudent financial and operational management in all aspects of our business to ensure that we are able to deliver sustainable returns to our Shareholders. We intend to maintain a healthy balance sheet with an appropriate gearing ratio. We may use a combination of internal resources, bank loans, bonds and other types of debt and equity instruments to fund future acquisitions and asset enhancements. We will consider diversifying our resources and tenors of financing in the future to minimize our financing costs and concentration risks. We aim to adopt and maintain an optimal capital structure, leverage our business profile to access cost effective funds and to maintain sufficient flexibility for us to implement prudent capital expenditure programs while continuously delivering sustainable returns to our Shareholders.

Increase our pollution reduction capability and capitalize on the opportunity of future pollution right trading scheme in Yunnan Province, the PRC

In Yunnan Province and other regions in China, local governments are often under great pressures to meet the pollution reduction quotas set by their supervisory entities. In 2015, we helped the government of Yunnan Province, the PRC, to meet its COD and NH_3-N target by fulfilling 53.5% and 45.9% of its respective quotas. We intend to further improve our pollution reduction capability and to assist local governments and other potential clients in meeting their pollution treatment requirements, thereby enhancing our reputation and increasing our market share.

Following the lead of Jiangsu, Zhejiang, Hebei and eight other provinces in the PRC, which have made notable progress in total pollution reduction, the Kunming municipal government is also contemplating the implementation of a pollution right trading scheme in the near future, through which pollution rights are expected to be allocated to service providers in the province and matching preferential policies are expected to be made correspondingly. Due to the high quality of our effluent, we are not only able to meet these requirements but can also save part of our allocated pollution right quota to trade with other service providers in the province who are unable to meet their requirements. As a leading wastewater treatment service provider in Kunming, we are in an unparalleled position to benefit economically from the allocation, pricing and trading the pollution rights in the future. We intend to better position ourselves in seizing this opportunity by further enhancing our pollution treatment capabilities.

OUR BUSINESSES

Business Segment Summary

Our core businesses cover municipal wastewater treatment, reclaimed water and running water supply services.

- ***Wastewater treatment:*** Our business includes primarily design, construction and/or operation of wastewater treatment facilities under concession arrangements. For the years ended December 31, 2014, 2015 and 2016, approximately 92.6%, 85.2% and 83.7% of our revenue was derived from this segment, respectively.

- ***Other water-related services:***

  - *Reclaimed water supply:* We have operated six wastewater treatment plants in Kunming to produce and supply reclaimed water, with aggregated daily supply capacity of 44,000 m^3. For the years ended December 31, 2014, 2015 and 2016, approximately 1.0%, 1.0% and 0.7% of our revenue was derived from this segment, respectively.

  - *Running water supply:* We entered into a water supply agreement with Malong County government on July 30, 2015 to provide running water to Malong County, which marks our expansion into the running water business. For the years ended December 31, 2014, 2015 and 2016, approximately 1.6%, 4.1% and 6.1% of our revenue was derived from this segment, respectively.

- ***Others:*** Our other businesses primarily involve management services that we perform for the wastewater treatment facilities under trial operations owned by our Controlling Shareholder (please see the section headed "Relationship with the Controlling Shareholder" in this prospectus for details), in addition to transportation and other miscellaneous businesses. For the years ended December 31, 2014, 2015 and 2016, approximately 4.8%, 9.7% and 9.5% of our revenue was derived from this segment, respectively.

Our Projects

Project Models

We principally adopt the TOO, TOT and BOT project models for our projects, with a primary focus on the TOO model. For the years ended December 31, 2014, 2015 and 2016, our TOO projects contributed to 91.1%, 79.7% and 77.0% of our total revenue, respectively, our TOT projects contributed to 0.9%, 2.2% and 5.5% of our total revenue, respectively, and our BOT projects contributed to 1.6%, 6.7% and 6.4% of our total revenue, respectively. We also adopt the BOO and BT project models for some of our projects. The following table sets forth the key features of our project models.

Project Models	Key Features
TOO (Transfer-Own-Operate)	We acquire the concession rights and the rights to operate existing facilities for an agreed consideration from the local government. We are usually paid for our wastewater treatment and water supply services either monthly or quarterly during the concession period.

Project Models	Key Features
	We retain the ownership of the facilities and secure a new concession right after the expiration of the existing concession period.
BOO (Build-Own-Operate)	We finance and construct our own facilities. The local government grants us the right to operate the facilities and we are usually paid for our wastewater treatment and water supply services either monthly or quarterly during the concession period. We retain the ownership of the facilities and secure a new concession right after the expiration of the existing concession period.
TOT (Transfer-Operate-Transfer)	Same as TOO, except that we transfer the facilities back to the local government after the expiration of the existing concession period.
BOT (Build-Operate-Transfer)	Same as BOO, except that we transfer the facilities back to the local government after the expiration of the existing concession period.
BT (Build-Transfer)	We finance and construct the facilities. Upon completion of construction, we transfer the facilities to the local government, who pays us repurchase fees in installments.

Our Facilities in Commercial Operation

As of the Latest Practicable Date, we have 26 wastewater treatment plants — of which six have reclaimed water production capability — and three running water supply plants in commercial operation. Among those plants, 15 are TOO projects and 13 are TOT projects, and one is a BOT project.

The utilization rate of our facilities is above the industry average and the volume of wastewater treated has maintained a high level over the past years. For the years ended December 31, 2014, 2015 and 2016, the total volume of wastewater treated was 423.4 million m^3, 454.2 million m^3 and 517.9 million m^3 with an average facility utilization rate of 103.7%, 109.4% and 92.8%, respectively.

Our facilities' electricity consumption is also low when compared to national standards. In 2015, for our facilities meeting the Class I Standard A discharge standard, our average electricity consumption per cubic meter of wastewater treated was 0.24 kWh, which is superior to the "good" level (0.29 kWh/m^3) stipulated in the "The Stipulation of Energy Consumption of Municipal Wastewater Treatment" (城鎮污水處理能源消耗限額).

Because of the high quality of our treated effluent, we are able to provide reclaimed water supply service to Kunming at a very low cost. Currently, the utilization rates of our reclaimed water facilities have been relatively low due to the ongoing construction of our pipeline distribution network, but the yearly sales volumes of our reclaimed water have been rapidly increasing, demonstrating significant growth potential. For the years ended December 31, 2014, 2015 and 2016, the total sales volume of reclaimed water was 5.1 million m^3, 5.8 million m^3 and 5.8 million m^3 with an average facility utilization rate of 44.1%, 36.1% and 36.3%, respectively (utilization rate decreased in 2015 due to the expansion of our reclaimed water supply capacity).

With our acquisition of Malong No. 1 Running Water Plant and Malong Dongguang Water Plant, we entered into the running water supply business in July 2015. For the year ended December 31, 2015 and 2016, the total volume of running water supplied was 1.6 million m^3 and 4.7 million m^3 with average an facility utilization rate of 23.1% and 26.7%, respectively.

The following table sets out the components of our revenue derived from our operational facilities for the periods indicated:

	Year ended December 31,		
Facility	**2014**	**2015**	**2016**
	Revenue	**Revenue**	**Revenue**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Wastewater treatment			
Operating service	665,304	657,906	752,444
Reclaimed water			
Operating service	7,521	8,310	6,814
Running water			
Operating service	–	2,081	5,668
Total	672,825	668,297	737,926

The following table sets out the key quality metrics of our average wastewater treatment effluent in Kunming main city area (corresponding to 71.6% of our total designed wastewater treatment capacity as of December 31, 2016) for the periods indicated, in comparison with the national "Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant" (GB18918-2002) and the national "Environmental Quality Standards for Surface Water" (GB3838-2002):

Pollutant	Operational Metrics						National Standards		
	2014		2015		2016		Surface Water Standard III	Standard I Class A	Standard I Class B
	Influent	Effluent	Influent	Effluent	Influent	Effluent			
	(mg/l)	(mg/l)	(mg/l)	(mg/l)	(mg/l)	(mg/l)			
CODcr	335.43	12.54	325.81	13.35	317.52	11.39	≤20	≤50	≤60
BOD_5	169.46	1.14	170.91	1.26	178.96	0.87	≤4	≤10	≤20
SS	286.01	4.99	259.75	4.39	253.82	4.30	N/A	≤10	≤20
NH_3-N	22.36	0.63	26.63	0.46	25.73	0.38	≤1	≤5	≤8
T-N	35.61	10.66	35.66	9.28	34.04	8.25	≤1	≤15	≤20
T-P	5.11	0.14	5.38	0.17	5.17	0.15	≤0.2	≤0.5	≤1

As demonstrated in the above table, the key quality metrics of our average effluent in Kunming main city area are not only significantly better than Standard I Class A, which is the highest quality standard for wastewater treatment in the PRC, but most of the metrics also reached the Surface Water Standard III, which is a quality standard for water that is suitable for being the raw water for municipal running water. See "Regulations — Concession in Municipal Public Utilities Projects — Water Quality" for details on the quality requirements for our wastewater treatment, reclaimed water supply and running water supply services.

The following tables set forth certain details of our facilities in operation as of the Latest Practicable Date:

Wastewater Treatment Facilities (Plant Details)

Facility	Project Type	Treatment Process	Effluent Quality Standard	Commercial Operation Date	Acquisition Date/ Commencement Date of Consolidation in the Group's Financial Statements	Designed Capacity	Reclaimed Water Capacity	Total Investment Amount	Investment Payback Period[4]	Concession Agreement: Counter-Party	Location	Tariff	Date of Agreement	Concession Period	Minimum Intake
						('000 m^3 per day)	('000 m^3 per day)	(RMB'000)	(Year)			(RMB/m^3, including VAT)			
Kunming No. 1 Water Purification Plant	TOO	Oxidation ditch	Standard I Class A	March 1991	December 2010	120.0	6.0	N/A[1]	N/A[1]	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Kunming No. 2 Water Purification Plant	TOO	A^2/O	Standard I Class A	November 1995	December 2010	100.0	4.0	N/A[1]	N/A[1]	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Kunming No. 3 Water Purification Plant	TOO	ICEAS	Standard I Class A	October 1997	December 2010	210.0	6.0	N/A[1]	N/A[1]	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Kunming No. 4 Water Purification Plant	TOO	MBR	Standard I Class A	May 1997	December 2010	60.0	4.0	N/A[1]	N/A[1]	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Kunming No. 5 Water Purification Plant	TOO	A^2/O	Standard I Class A	November 2002	December 2010	185.0	20.0	N/A[1]	N/A[1]	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Kunming No. 6 Water Purification Plant	TOO	A^2/O	Standard I Class A	May 2003	December 2010	130.0	4.0	N/A[1]	N/A[1]	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity

Facility	Project Type	Treatment Process	Effluent Quality Standard	Commercial Operation Date	Acquisition Date/ Commencement Date of Consolidation in the Group's Financial Statements	Designed Capacity	Reclaimed Water Capacity	Total Investment Amount	Investment Payback Period[4]	Concession Agreement					
										Counter-Party	Location	Tariff	Date of Agreement	Concession Period	Minimum Intake
						('000 m^3 per day)	('000 m^3 per day)	(RMB'000)	(Year)			(RMB/m^3, including VAT)			
Kunming No. 7 and No. 8 Water Purification Plant	TOO	A^2/O	Standard I Class A	December 2009	December 2010	300.0	N/A	N/A[1]	N/A[1]	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Kunyang Water Purification Plant	TOO	A^2/O	Standard I Class A	January 2016	January 2016[2]	75.0	N/A	149,253.8	8–10	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Gucheng Water Purification Plant	TOO	Oxidation ditch and MBR	Standard I Class A	January 2016	January 2016[2]	40.0	N/A	142,641.2	11–13	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Yunihe Water Purification Plant	TOO	A^2/O	Standard I Class A	January 2016	January 2016[2]	100.0	N/A	156,989.2	9–11	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Luolonghe Wastewater Treatment Plant	TOO	A^2/O	Standard I Class A	January 2016	January 2016[2]	60.0	N/A	111,829.9	6–8	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Laoyuhe Wastewater Treatment Plant	TOO	A^2/O	Standard I Class A	January 2016	January 2016[2]	45.0	N/A	74,275.4	5–7	Kunming Dianchi Authority	Kunming, Yunnan	1.58	January 2011	30 years	60% of designed capacity
Xundian County Water Purification Plant	TOT	CAST	Standard I Class A	May 2010	April 2014	12.0	N/A	36,010.0	8–10	Xundian County Government	Xundian, Yunnan	1.438	March 2014	26 years 9 months	12,000 m^3/day

Facility	Project Type	Treatment Process	Effluent Quality Standard	Commercial Operation Date	Acquisition Date/ Commencement Date of Consolidation in the Group's Financial Statements	Designed Capacity	Reclaimed Water Capacity	Total Investment Amount	Investment Payback Period(4)	Concession Agreement: Counter-Party	Location	Tariff	Date of Agreement	Concession Period	Minimum Intake
						('000 m^3 per day)	('000 m^3 per day)	(RMB'000)	(Year)			(RMB/m^3, including VAT)			
Shidian County Wastewater Treatment Plant	TOT	CASS	Standard I Class B	September 2013	July 2014	10.0	N/A	21,282.0	10–12	Shidian County Government	Shidian, Yunnan	0.94	July 2014	30 years	80% of designed capacity for the first year, 90% for the second year, and 100% thereafter
Yiliang County Wastewater Treatment Plant	TOT	ICEAS	Standard I Class B	August 2014	June 2015	7.5	N/A	20,032.0	8–10	Yiliang County Government	Yiliang, Yunnan	1.35	May 2015	30 years	70% of designed capacity for the first year, 80% for the second year, 90% for the third year, and 100% thereafter
Fanchang County Suncun Town Wastewater Treatment Plant	TOT	Oxidation ditch	Standard I Class B	June 2016(3)	October 2015	15.0	N/A	39,800.0	15–17	Suncun Town Government	Fanchang, Anhui	1.2	October 2015	30 years	9,000 m^3/day for the first year, 12,000 m^3/day for the second year, and 15,000 m^3/day thereafter

Facility	Project Type	Treatment Process	Effluent Quality Standard	Commercial Operation Date	Acquisition Date/ Commencement Date of Consolidation in the Group's Financial Statements	Designed Capacity	Reclaimed Water Capacity	Total Investment Amount	Investment Payback Period[4]	Concession Agreement					
										Counter-Party	Location	Tariff	Date of Agreement	Concession Period	Minimum Intake
						('000 m^3 per day)	('000 m^3 per day)	(RMB'000)	(Year)			(RMB/m^3, including VAT)			
Malong County Wastewater Treatment Plant	TOT	ICEAS	Standard I Class A	June 2011	August 2015	10.0	N/A	28,219.0	10–12	Malong County Government	Malong, Yunnan	1.5	July 2015	30 years	60% of designed capacity for the first year, 70% for the second year, 80% for the third year, 90% for the fourth year, and 100% thereafter
Suijiang Wastewater Treatment Plant	TOT	ICEAS	Standard I Class B	March 2013	December 2015	10.0	N/A	20,100.0	7–9	Suijiang County Government	Suijiang, Yunnan	1.7	December 2015	30 years	70% of designed capacity for the first year, 80% for the second year, 90% for the third year, and 100% thereafter

Facility	Project Type	Treatment Process	Effluent Quality Standard	Commercial Operation Date	Acquisition Date/ Commencement Date of Consolidation in the Group's Financial Statements	Designed Capacity	Reclaimed Water Capacity	Total Investment Amount	Investment Payback Period(4)	Concession Agreement					
										Counter-Party	Location	Tariff	Date of Agreement	Concession Period	Minimum Intake
						('000 m^3 per day)	('000 m^3 per day)	(RMB'000)	(Year)			(RMB/m^3, including VAT)			
Zhuji City Paitou Town Wastewater Treatment Plant	TOT	SBR	Standard I Class B	July 2011	December 2015	10.0	N/A	24,000.0	8–10	Paitou Town Government	Zhuji, Zhejiang	1.17	December 2015	25 years 6 months	7,500 m^3/day for the first year, 8,000 m^3/day for the second year, 9,000 m^3/day for the third year, and 10,000 m^3/day thereafter
Ziyun Wastewater Treatment Plant	TOT	Oxidation ditch	Standard I Class B	January 2010	January 2016	4.0	N/A	11,000.0	11–13	Ziyun County Government	Ziyun, Guizhou	1.02 for the first 2,600 m^3 per day; 0.51 for any additional treatment volumes	December 2015	24 years 7 months	2,600 m^3/day for 2016, 2,800 m^3/day for 2017, 3,000 m^3/day for 2018, 3,300 m^3/day for 2019, 3,500 m^3/day for 2020, 3,800 m^3/day for 2021, and 4,000 m^3/day thereafter

Facility	Project Type	Treatment Process	Effluent Quality Standard	Commercial Operation Date	Acquisition Date/ Commencement Date of Consolidation in the Group's Financial Statements	Designed Capacity	Reclaimed Water Capacity	Total Investment Amount	Investment Payback Period[4]	Concession Agreement					
										Counter-Party	Location	Tariff	Date of Agreement	Concession Period	Minimum Intake
						('000 m^3 per day)	('000 m^3 per day)	(RMB'000)	(Year)			(RMB/m^3, including VAT)			
Zhongshu Wastewater Treatment Plant	TOT	Oxidation ditch	Standard I Class B	March 2007	May 2016	30.0	N/A	23,304.0	7–9	Renhuai City Government	Renhuai, Guizhou	0.81	January 2011	30 years	26,000 m^3/day for the first year beginning in 2015 to the fourth years, 29,000 m^3/day for the fifth to the tenth year, and 30,000 m^3/day thereafter
Maotai Wastewater Treatment Plant	TOT	Oxidation ditch	Standard I Class B	April 2008	May 2016	10.0	N/A	7,768.0	7–9	Renhuai City Government	Renhuai, Guizhou	0.81	January 2011	30 years	100% of the designed capacity
Hongze County Wastewater Treatment Plant · · · ·	TOT	$A^2/0$	Standard I Class B	October 2007	January 2017	40.0	40.0	120,286.2	8	Hongze County Government	Hongze County, Jiangsu Province	0.78	October 2016	23 years and 6 months	100% of the designed capacity
Qutang Town Wastewater Treatment Plant	T00	$A^2/0$	Standard I Class B	February 2010	January 2017	5.0	N/A	10,764.0	9–10	Government of Qutang Town, Haina County	Haian County, Jiangsu Province	0.97	October 2016	24 years	100% of the designed capacity

Facility	Project Type	Treatment Process	Effluent Quality Standard	Commercial Operation Date	Acquisition Date/ Commencement Date of Consolidation in the Group's Financial Statements	Designed Capacity	Reclaimed Water Capacity	Total Investment Amount	Investment Payback Period[4]	Concession Agreement: Counter-Party	Concession Agreement: Location	Concession Agreement: Tariff	Concession Agreement: Date of Agreement	Concession Agreement: Concession Period	Concession Agreement: Minimum Intake
						('000 m^3 per day)	('000 m^3 per day)	(RMB'000)	(Year)			(RMB/m^3, including VAT)			
Libao Town Wastewater Treatment Plant	T00	$A^2/0$	Standard I Class B	February 2010	January 2017	5.0	N/A	10,712.6	9–10	Government of Libao Town, Haina County	Haian County, Jiangsu Province	0.90	October 2016	24 years	100% of the designed capacity

Notes:

(1) As those plants were transferred to us from our Controlling Shareholder at our Company's establishment in December 2010 and many of which were constructed more than a decade ago, the metrics are not applicable and potentially misleading as those plants are not reflective of the Company's investment strategy or performance.

(2) Date of obtaining actual control.

(3) Revenue was recognized before the commercial operation date for services rendered during the trial operation period.

(4) Payback period calculation is based on the number of years that aggregate undiscounted net operating cash flow equals total initial investment amount.

Wastewater Treatment Facilities (Operational Data)

Facility	Year ended December 31, 2014 Volume ('000 m^3)	2014 Utilization rate	2015 Volume ('000 m^3)	2015 Utilization rate	2016 Volume ('000 m^3)	2016 Utilization rate
Kunming No. 1 Water Purification Plant	42,776.6	97.7%	49,058.3	112.0%	49,680.7	113.1%
Kunming No. 2 Water Purification Plant	38,213.5	104.7%	41,583.1	113.9%	41,840.5	114.3%
Kunming No. 3 Water Purification Plant	80,757.1	105.4%	82,443.0	107.6%	86,680.7	112.8%
Kunming No. 4 Water Purification Plant	20,892.8	95.4%	20,682.8	94.4%	17,577.7	80.0%
Kunming No. 5 Water Purification Plant	77,610.9	114.9%	86,142.6	127.6%	85,396.7	126.1%
Kunming No. 6 Water Purification Plant	47,765.4	100.7%	48,874.6	103.0%	48,442.8	101.8%
Kunming No. 7 and No. 8 Water Purification Plant	110,916.2	101.3%	115,367.1	105.4%	116,375.1	106.0%
Kunyang Water Purification Plant	–	–	–	–	9,135.8	33.3%
Gucheng Water Purification Plant	–	–	–	–	3,432.7	23.4%
Yunihe Water Purification Plant	–	–	–	–	6,948.1	19.0%
Luolonghe Wastewater Treatment Plant	–	–	–	–	19,903.0	90.6%
Laoyuhe Wastewater Treatment Plant	–	–	–	–	5,549.0	33.7%
Xundian County Water Purification Plant	2,867.1	86.9%	3,916.2	89.4%	3,929.8	89.5%
Shidian County Wastewater Treatment Plant	1,620.7	88.1%	3,479.0	95.3%	3,298.8	90.1%
Yiliang County Wastewater Treatment Plant	–	–	989.0	61.6%	1,804.3	65.7%
Fanchang County Suncun Town Wastewater Treatment Plant	–	–	–	–	1,742.6	54.3%
Malong County Wastewater Treatment Plant	–	–	1,154.4	75.5%	2,651.2	72.4%
Suijiang Wastewater Treatment Plant	–	–	215.0	69.4%	2,543.1	69.5%

Facility	Year ended December 31, 2014 Volume ('000 m^3)	2014 Utilization rate	2015 Volume ('000 m^3)	2015 Utilization rate	2016 Volume ('000 m^3)	2016 Utilization rate
Zhuji City Paitou Town Wastewater Treatment Plant	–	–	254.1	82.0%	3,015.4	82.4%
Ziyun Wastewater Treatment Plant	–	–	–	–	1,463.6	100.0%
Zhongshu Wastewater Treatment Plant	–	–	–	–	5,424.9	73.8%
Maotai Wastewater Treatment Plant	–	–	–	–	1,074.7	43.9%

Reclaimed Water Supply Facilities (Operational Data)

Facility	Year ended December 31, 2014 Volume ('000 m^3)	2014 Utilization rate(1)	2015 Volume ('000 m^3)	2015 Utilization rate(1)	2016 Volume ('000 m^3)	2016 Utilization rate(1)
Kunming No. 1 Water Purification Plant	89.5	4.1%	187.0	8.5%	358.6	16.3%
Kunming No. 2 Water Purification Plant	423.2	29.0%	661.5	45.3%	1,292.1	88.3%
Kunming No. 3 Water Purification Plant	161.8	7.4%	74.3	3.4%	124.8	5.7%
Kunming No. 4 Water Purification Plant	2,559.7	175.3%	2,770.8	189.8%	2,095.6	143.1%
Kunming No. 5 Water Purification Plant	1,644.5	56.3%	1,885.2	25.8%(2)	1,710.9	23.4%
Kunming No. 6 Water Purification Plant	267.4	18.3%	211.1	14.5%	263.9	18.0%

Notes:

(1) The capacity of a reclaimed water supply facility is determined by the capacity of the pump installed as part of the facility. In certain cases, the facility can utilize pumps provided by external parties to deliver reclaimed water, thereby exceeding the facility's designed capacity.

(2) The reclaimed water supply capacity of Kumming No. 5 Water Purification Plant was expanded in 2015.

Running Water Supply Facilities (Plant Details)

Facility	Project Type	Commercial Operation Date	Acquisition Date	Designed Capacity	Total Investment Amount	Commencement Date of Consolidation in the Group's Financial Statements	Investment Payback Period[1]	Concession Agreement: Counter-Party	Location	Date of Agreement	Tariff	Concession Period	Minimum Intake
				('000 m^3 per day)	(RMB'000)		(Year)				(RMB/m^3, including VAT)		
Malong No. 1 Running Water Plant · · · · · ·	TOT	1970s	July 2015	6.0	3,300.0	August 2015	1–3	Malong County Government	Malong, Yunnan	July 2015	2.60	30 years	60% of designed capacity for the first year, 70% for the second year, 80% for the third year, 90% for the fourth year, and 100% thereafter
Malong Dongguang Water Plant · · · ·	TOT	December 2011	July 2015	40.0	21,846.3	August 2015	9–11	Malong County Government	Malong, Yunnan	July 2015	1.11	30 years	4,000 m^3/day for the first year, 6,000 m^3/day for the second year, 8,000 m^3/day for the third year, and 10,000 m^3/day thereafter
Shidian County No. 2 Running Water Supply Plant· · · ·	BOT	October 2016	N/A[3]	10.0	40,197.2	N/A[3]	9–11	Shidian County Government	Shidian, Yunnan	July 2014	0.64[2]	30 years	80% of designed capacity for the first year, 90% for the second year, and 100% thereafter

Notes:

(1) Payment period calculation is based on the number of years that aggregate undiscounted net operating cash flow equals total investment amount.

(2) Pursuant to our concession agreement, Shidian County government is responsible for the raw water procurement fee, which results in a lower tariff.

(3) The dates are not applicable as the Shidian County No. 2 Running Water Supply Plant is a BOT project. The construction of the plant was commenced by us in March 2015.

Running Water Supply Facilities (Operational Data)

Facility	Year ended December 31, 2014: Volume	2014: Utilization rate	2015: Volume	2015: Utilization rate	2016: Volume	2016: Utilization rate
	('000 m^3)		('000 m^3)		('000 m^3)	
Malong No. 1 Running Water Plant · · · · · · · · · · · · · · · ·	N/A	N/A	1,002.1	109.2%	2,220.5	101.1%
Malong Dongguang Water Plant · · · · · · · · · · · · · · ·	N/A	N/A	624.5	10.2%	1,593.3	10.9%
Shidian County No. 2 Running Water Supply Plant · · · · · ·	N/A	N/A	N/A	N/A	934.7	101.6%

Our Facilities under Construction

As of the Latest Practicable Date, we had one wastewater treatment plant and one running water supply plant under construction, all of which were BOT projects. The following tables set forth the details of our projects under construction as of the Latest Practicable Date:

Wastewater Treatment Plant

Project	Project Type	Treatment Process	Construction Commencement Date	Effluent Quality Standard	Designed Capacity	Expected Completion Date	Current Status	Total Investment Amount	Investment Payback Period	Investment incurred as of the Latest Practicable Date	Investment to be Incurred	Concession Agreement					
												Counter-Party	Location	Expected Tariff	Date of Agreement	Concession Period	Guaranteed Minimum Intake
					('000 m^3 per day)			(RMB'000)	(Year)	(RMB'000)	(RMB'000)			(RMB/m^3)			
Yiliang County No. 2 Wastewater Treatment Plant and Pipeline Network	BOT	A^2O	March 2015	Standard I Class A	20.0	2nd Quarter of 2017	Under construction	116,370.7	9–11	76,784.5	39,586.2	Yiliang County Government	Yiliang, Yunnan	1.10	March 2014	30 years	18,000 m^3/day for the first 3 years, 20,000 m^3/day thereafter

Running Water Supply Plant

Project	Project Type	Construction Commencement Date	Designed Capacity	Expected Completion Date	Current Status	Total Investment Amount	Investment Payback Period	Investment incurred as of the Latest Practicable Date	Investment to be Incurred	Concession Agreement					
										Counter-Party	Location	Expected Tariff	Date of Agreement	Concession Period	Guaranteed Minimum Intake
			('000 m^3 per day)			(RMB'000)	(Year)	(RMB'000)	(RMB'000)			(RMB/m^3)			
Malong No. 2 Running Water Plant	BOT	August 2016	10.0	4th Quarter 2017–1st Quarter 2018	Under civil construction	46,291.0	9–11	10,208.9	36,082.1	Malong County Government	Malong, Yunnan	2.60	July 2015	30 years	60% of designed capacity for the first year, 70% for the second year, 80% for the third year, 90% for the fourth year, and 100% thereafter

Note: Pursuant to our concession agreement, Shidian County government is responsible for the raw water procurement fee, which results in a lower tariff.

Reclaimed Water Supply Pipelines

Project (Type)	Location	Estimated Commercial Operation Date	Length
			(m)
Wangqiong Road, Kepu Road Pipeline (BOO)	Kunming, Yunnan	4th Quarter 2017	8,226
No. 9 Water Purification Plant Connection Pipeline (BOO)	Kunming, Yunnan	4th Quarter 2017	530
Fangwangpian District No. 1 Road Pipeline (BOO)	Kunming, Yunnan	4th Quarter 2017	3,590
Xuefu Road Pipeline (BOO)	Kunming, Yunnan	4th Quarter 2017	920

Our Facilities under Development

As of the Latest Practicable Date, we had one wastewater treatment plant and two running water supply plants under development pending further construction approvals. All of those plants were BOT projects.

The following tables set forth the details of our projects under development as of the Latest Practicable Date:

Wastewater Treatment Plant

Project	Project Type	Treatment Process	Effluent Quality Standard	Designed Capacity	Expected Construction Commencement Date	Expected Completion Date	Current Status	Total Investment Amount	Investment Payback Period	Investment incurred as of the Latest Practicable Date	Investment to be Incurred	Concession Agreement: Counter-Party	Concession Agreement: Location	Concession Agreement: Expected Tariff	Concession Agreement: Date of Agreement	Concession Agreement: Concession Period	Concession Agreement: Guaranteed Minimum Intake
				('000 m^3 per day)				(RMB'000)	(Year)	(RMB'000)	(RMB'000)			(RMB/m^3)			
Laos Golden Triangle Wastewater Treatment Plant· ·	BOT	Biological Speed Separation Filter	Standard I Class B	6.0	Second quarter of 2017	Mid-2018	Under initial design	30,000.0	9–11	292.1	29,707.9	The Golden Triangle Special Economic Zone Administrative Committee	Bokeo, Laos	2.75	October, 2015	30 years	60% of designed capacity for the first year, 70% for the second year, 80% for the third year, 90% for the fourth year, and 100% thereafter

Running Water Supply Plants

Project	Project Type	Designed Capacity	Expected Construction Commencement Date	Expected Completion Date	Total Investment Amount	Investment Payback Period	Investment incurred as of the Latest Practicable Date	Investment to be Incurred	Current Status	Concession Agreement: Counter-Party	Concession Agreement: Location	Concession Agreement: Expected Tariff	Concession Agreement: Date of Agreement	Concession Agreement: Concession Period	Concession Agreement: Guaranteed Minimum Intake
		('000 m^3 per day)			(RMB'000)	(Year)	(RMB'000)	(RMB'000)				(RMB/m^3)			
Laos Golden Triangle Running Water Plant· · · · · · · ·	BOT	10.0	Second quarter of 2017	Mid-2018	30,000.0	5–7	301.5	29,698.5	Under initial design	The Golden Triangle Special Economic Zone Administrative Committee	Bokeo, Laos	2.84	October 2015	30 years	60% of designed capacity for the first year, 70% for the second year, 80% for the third year, 90% for the fourth year, and 100% thereafter
Shuangjiang County No. 2 Running Water Plant· · ·	BOT	10.0	Second quarter of 2017	1st Quarter 2019	50,000.0	9–11	1,606.6	48,393.4	Under initial design	Shuangjiang County Government	Shuangjiang, Yunnan	3.38	May 2016	30 years	6,500 m^3 per day

Our Projects in Laos

For the wastewater treatment and running water projects in Laos, our total estimated investment amounts are both RMB30.0 million. As of the Latest Practicable Date, we had not incurred substantive investment for these two projects. We expect to finance the construction of these projects primarily with internally generated funds from our operations, as well as bank loans and in aggregate approximately RMB30.0 million to RMB40.0 million of the proceeds from the Global Offering. After their commencement of commercial operation, we expect to fund daily operations of these projects with tariffs collected from the relevant Laotian government authorities, who granted the relevant concession rights to us.

We are now in the early stage of surveying the project sites. As of the Latest Practicable Date, our total amounts incurred in relation to these two project were not substantive and were primarily administrative costs incurred in preparing these two projects. The construction of both projects is expected to commence in the second quarter of 2017.

The project company for the projects in Laos is incorporated in the Golden Triangle Special Economic Zone in Laos. As we utilize centralized management software for book and record keeping, even though the book and record keeping of the Laos projects will be conducted in Laos, the records will also be readily available for the management's review in Kunming.

According to the concession agreements we entered into with the Golden Triangle Special Economic Zone Administrative Committee, we are generally responsible for the design, engineering, management, quality control and financing of the projects. The local governments are responsible for land procurement, regulatory approval, utility installation and other administrative support. Material changes to the construction plan must be approved by the government, and extra cost incurred may be reimbursed and recognized in the total investment cost calculation. Tariffs are calculated with reference to the actual investment amount and operation costs, and will be adjusted every three years. Payments are to be settled on a monthly basis. Upon the conclusion of the relevant concession periods, we are required to transfer the facilities to the local government without compensation, and make sure these facilities are in good working conditions.

As Laos is an emerging economy with potentially high risks of conducting business, we demanded the pledge of lands underlying our Laos projects as collateral. According to the concession agreements, in the event that the Golden Triangle Special Economic Zone Administrative Committee has been in default in the payment of fees for more than 12 months or for an amount of more than RMB3.0 million, we can terminate the concession agreements and take and dispose the lands, which are valued at approximately 10% higher than the Group's estimated investment amount. Moreover, the agreements designated the Singapore International Arbitration Centre as the forum for dispute resolution in order to avoid uncertainties of the legal process in Laos. Additionally, the tariff payments are to be made in RMB instead of Kip, the Laotian currency, in order to protect the Group from potential monetary and currency risks.

The material terms of the agreements otherwise follow the principles of our concession agreements entered into with local governments in the PRC, as set out in the section "— Concession agreements".

As advised by our Laotian counsel, we have not been in breach of any Laotian laws or regulations since we entered into the market in Laos. The Laotian counsel further advised that although there are no laws specifically regulating the types of BOT projects undertaken by the Company, there are general rules regarding foreign investment and water supply, and that the Company has been in compliance with such regulatory requirements. Additionally, under the concession agreements, the Golden Triangle Special Economic Zone Administrative Committee, which is the authoritative local government in the area where our Laos projects are located, had undertaken to assist us in obtaining all regulatory approvals required and complying with all relevant Laotian laws. Based on the above advices from the Laotian counsel, we are not aware of any substantive risk of non-compliance for our projects in Laos.

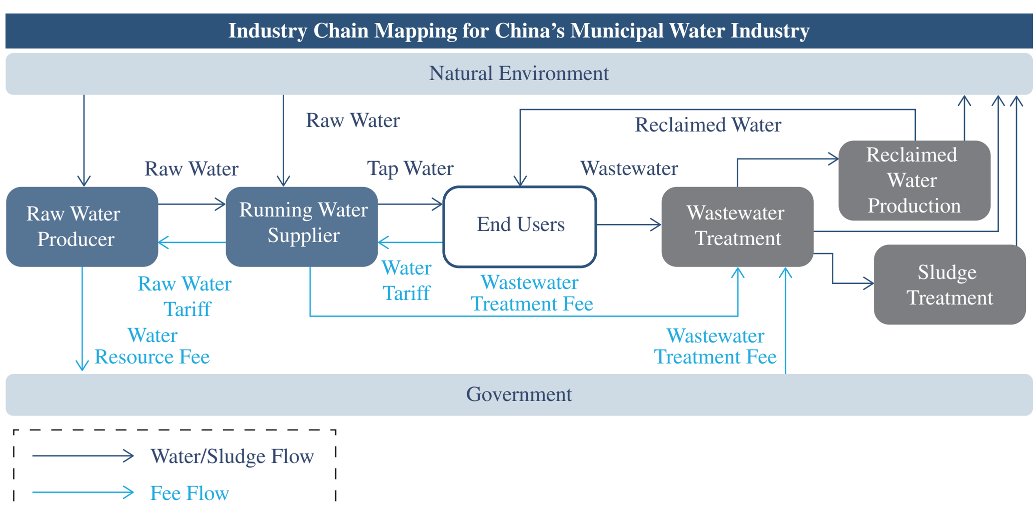
These projects will have a limited impact on our Group's overall capital expenditure and revenue, as they constitute approximately 1% of the total designed capacity of the Group's existing plants, and their total estimated investment amount constitutes approximately 1% of the Group's total assets as of December 31, 2016. Other than these two projects, as of the Latest Practicable Date, we have no other capital commitments in relation to our expansion in Laos, and we do not have any intention for further expansion in Laos. However, they mark our first step expanding into the Southeast Asian market, as well as our commitment to China's national strategy of "One Belt, One Road". See "— Our Strategies — Expand our services to new geographical areas, with primary focus on relevant regions in China, and selected markets in Southeast Asia and South Asia" for our international expansion strategy.

Given (1) the immaterial size of the investment in Laos, both in terms of absolute size and relative to our total assets, (2) the protective measures we adopted regarding those two plants, including, among others, the land pledge measures, arbitration forum and settlement currency, and (3) the projects' piloting status as our first concession projects outside of the PRC, our Directors are of the view, and the Sponsor concurs, that the investment in Laos is the interests of the Shareholders as a whole as it allows the Group to explore its overseas growth strategy while facing limited risk exposure.

Concession Agreements

We operate our existing wastewater treatment business and running water supply business under concession agreements. As of the Latest Practicable Date, we had a total of 20 concession agreements with Kunming and other local governments. Each of the concession agreement grants us the exclusive right to operate in a given area, and therefore one concession agreement may cover multiple plants. Specifically, as of the Latest Practicable Date, our concession agreement with the Kunming Dianchi Authority covers the Kunming Nos. 1 to 8, Kunyang, Gucheng and Yunihe Water Purification Plants and Luolonghe and Laoyuhe Wastewater Treatment Plants; in November 2016, we signed a supplemental concession agreement with the Kunming Dianchi Authority, pursuant to which the geographic coverage of our concession right in Kunming was expanded beyond the Kunming main city area to include the surrounding rural areas as well; we entered into an entrusted operation and management agreement with the Kunming Dianchi Authority by the end of 2016 to perform management services for approximately 20 town wastewater treatment facilities and 885 village wastewater collection facilities, with a total designed capacity of approximately 57,440 m^3/day, subject to further due diligence of the facilities, and the management fee for each of the facilities under management is expected to range from RMB1.6/m^3 to RMB2.5/m^3 depending on the conditions of each individual facility, and will be subject to the other provisions under the concession agreement; our concession agreement with the Renhuai City government covers the Zhongshu and Maotai Wastewater Treatment Plants; our concession agreement with the Malong County government covers the Malong Nos. 1 and 2 Running Water Supply Plants; and our other concession agreements each corresponds to one plant. The concession agreements stipulate the terms upon which the concessions are granted and other rights and obligations of each party with regard to the construction and operation of water facilities.

According to Frost & Sullivan, the industry chain of China's municipal water industry primarily consists of three key components: production and supply of running water from raw water sources; the consumption of water by end users; and further treatment of wastewater effluent for reuse. The diagram below illustrates the industry chain of China's municipal water industry:



Source: Frost & Sullivan

Of the three components, the supply of running water and treatment of municipal wastewater are almost always conducted under government concessions. Below is a summary of the key contract terms of our concession agreements:

Concession Period

The concession period is typically 30 years, and all of our existing concession rights are longer than 20 years. Upon expiration of the concession period, for our BOO/TOO projects, we enjoy the right of first refusal upon the renewal; for our BOT/TOT projects, we are required to transfer the water facilities to the local governments.

Concession Right

For most of the concession agreements we have entered into, we have an exclusive right to provide the stipulated water service in a given area, thus guaranteeing us a monopoly status over the concession areas.

Construction (BOT and BOO project models only)

Under our contracts, we are generally responsible for the design, engineering, quality control and financing of the project constructions. The local governments are responsible for land procurement, regulatory approval, utility installation and other administrative support. Material changes to the construction plan must be approved by the government, and extra cost incurred may be reimbursed and recognized in the total investment cost calculation. Construction period varies from projects to projects, and from the end of the Track Record Period to the Latest Practicable Date we have not experienced any major delays or disputes with the local governments regarding the progress of our construction.

Inspection and Acceptance (BOT and BOO project models only)

The local governments are entitled to inspect the construction at any time and request modifications. After the facilities are constructed, we test the facilities and notify the relevant government to inspect and accept the facilities. The concession period usually starts upon the government's acceptance. Additional costs associated with correcting unsatisfactory works are generally borne by us.

Asset Acquisition and Initial Transfer (TOT and TOO project models only)

For projects not built by us, we acquire all the assets and land use rights for the facilities from relevant parties with the consent of the local governments. The transferors usually undertake, among other things, that: (1) there are no pledges or other encumbrances imposed on these assets; (2) the facilities have been inspected and accepted and possess all the necessary regulatory permits; and (3) the transferor provides a warranty period for the quality of the facilities after the initial transfer date.

Purchase Price and Payment (TOT and TOO project models only)

The purchase price for water facilities in our TOT and TOO projects is typically based on an appraisal report issued by an agency certified by the relevant SASAC and jointly appointed by the parties. We usually make payments in installments with reference to relevant construction milestones and regulatory approvals.

Water Quality

The concession agreement usually sets out the quality of the incoming wastewater to be treated, and the quality of outgoing water after being treated by our facilities. If the pollutants in the incoming wastewater significantly exceed the level stipulated in the Discharge

Standard for Municipal Wastewater (《污水排入城鎮下水道水質標準》) (CJ343-2010), we are entitled to reimbursement from the local government. If the quality of effluent does not meet the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) (GB18918-2002) due to our faulty treatment, we are responsible for any resultant direct economic damages and subject to fines. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incident of excessive pollutants in the incoming wastewater and had not been subject to any administrative penalties or disputes with the local governments or end users due to excessive pollutants in our effluent.

Tariff and Settlements

Wastewater Treatment Contracts

We generally issue monthly bills to either the local governments or the end users, as the case may be. For our wastewater treatment services, the tariff is usually set and calculated by the local governments according to formulas stipulated in the concession agreements. The pricing formulas differ slightly from contracts to contracts, but they usually take into account the actual investment, construction, and operation costs and the actual amount of wastewater treated during the previous pricing period to arrive at tariff rates that provide reasonable returns on investment as mutually agreed upon by the parties when the concession agreements were made.

In general, we can request the local governments to adjust the unit price every three or four years according to the relevant concession agreement to reflect changing market conditions. Moreover, the concession agreements usually stipulate a minimum intake volume of water treated and a guaranteed minimum unit price. When the actual volume of treated wastewater falls below the prescribed minimum intake volume, we are entitled to receive the guaranteed minimum tariff. Additionally, our tariff is not affected by the actual unit price of wastewater treatment the local governments charge to the residents and enterprises, as any differences in pricing will be made up by government budget according to the concession agreements.

Running Water Supply Contract

For our running water supply contract, the tariff is calculated according to the volume of running water consumed multiplied by the unit price set in accordance with the relevant laws and regulations while taking operation cost into account. Unit price can be reset every four years and we can apply for a price increase whenever operation cost increases by more than 8%. We are also entitled to a guaranteed minimum volume and unit price.

Land Use Right and Building Ownership

We are generally required to obtain land use right certificates for parcels of land occupied by us from the local governments by way of allocation or transfer in order to lawfully construct and operate our water treatment facilities and obtain building ownership certificates. We obtain allocated land with or without compensation depending on the provisions of the relevant concession agreements, and the local governments are generally required to assist us in the process and reimburse us for any excessive costs (as predetermined in the concession agreements) in obtaining and developing the land.

Transfer

We are required to transfer the water facilities to the local governments without compensation upon expiration of relevant concession periods, if the relevant concession agreements are not renewed. We are typically required to carry out comprehensive repair work before expiry to ensure that the water facilities operate properly. We are also required to make sure that no debt or other encumbrances are attached to the assets transferred. We have the right to transfer the water facilities to the local governments before the relevant concession periods expire if certain events occur, such as a default by the local governments in making scheduled payments. In such cases, we are entitled to compensation calculated according to the terms of the concession agreements. When the facilities are duly inspected and accepted, we have no further maintenance responsibilities.

Termination

A concession agreement can be terminated by either party due to specified events of default or force majeure events. Events of default by the local governments include, but are not limited to, their failure to make scheduled payments on time or granting concession rights to a third party in breach of our exclusive rights. Events of default by us include, but are not limited to, failing to commence construction within a certain period after all construction conditions have been satisfied or any serious quality or safety accidents as a result of our mismanagement. Where the agreement is terminated by one party due to the other party's default, the terminating party is entitled to damages or compensation. During the Track Record Period and up to the Latest Practicable Date, none of our concession projects was terminated before the end of its concession period.

Reclaimed Water Supply Contract

For our reclaimed water supply business, we negotiate a water supply contract with each individual customer. The majority of our reclaimed water's end users are municipal government agencies, public parks, and residential property management companies. Our reclaimed water has been used to irrigate landscape, clean streets, flush toilets, and recharge ground water.

We negotiate a different contract price for each of our customers because of the different treatment cost associated with their proposed uses. The contract price is determined with reference to (1) Kunming Municipal Commission of Development and Reform's guidelines on reclaimed water pricing issued in 2007; (2) the customer type; and (3) a reasonable discount over the running water price for the same customer type. The water is distributed either through water tankers or pipelines. The cost of distribution generally falls on our customers, who provide their own water tanks and typically bear the extra construction cost when the existing pipeline network does not reach their intended sites of use. We bill our customers monthly according to the actual volume used.

Unlike our wastewater treatment and running water supply businesses, we do not hold concession agreements over the supply of reclaimed water. However, we do not believe this would be a problem for our operation because we control the sole source of reclaimed water and control the urban area of Kunming City's only reclaimed water distribution pipeline network.

We, however, are in the process of obtaining a concession contract over reclaimed water service from the Kunming municipal government, which we anticipate to receive within 2017. As of the Latest Practicable Date, our proposed concession agreement has received clearance from the Kunming Commission on Concession Rights and the Kunming Water Authority and is pending final approval from the Kunming Municipal Government. Please see the section headed "Risk Factors — Risks Relating to Our Business and Industry — Our plan to expand our reclaimed water supply business may not be successful" in this prospectus.

Water Treatment Process

Wastewater Treatment

We focus on the treatment of municipal wastewater. Municipal wastewater usually consists of domestic sewage and infiltrated ground water, which contain organic pollutants and pathogens that are likely to cause odor and transmit diseases. Therefore, it must be treated before being discharged. Municipal wastewater is collected and carried through municipal pipeline networks constructed and owned by local governments to wastewater treatment plants for treatment. We treat wastewater using physical, biological and chemical processes before it is discharged to the environment. We adopt various processes to treat municipal wastewater based upon (i) the composition of the wastewater; (ii) the standards to be achieved for the treated wastewater; (iii) the quantity of wastewater to be treated; and (iv) construction conditions and the impact of construction on the surrounding environment. Different treatment techniques can be combined to maximize the effect of the treatment and to reduce treatment costs.

As of December 31, 2016, we have 23 wastewater treatment plants in operation, all of which uses the activated sludge process and its derivative technologies. The activated sludge process is a biological process for treating wastewater by forming suspended activated sludge through the mixture and culturing of micro-organisms in the wastewater under a controlled environment. This process uses the biological activities of the activated sludge to decompose and remove organic wastes and then separate the sludge and the water. Most of the sludge will be returned back to the biological reaction pool, while the excess sludge will be removed from the activated sludge system.

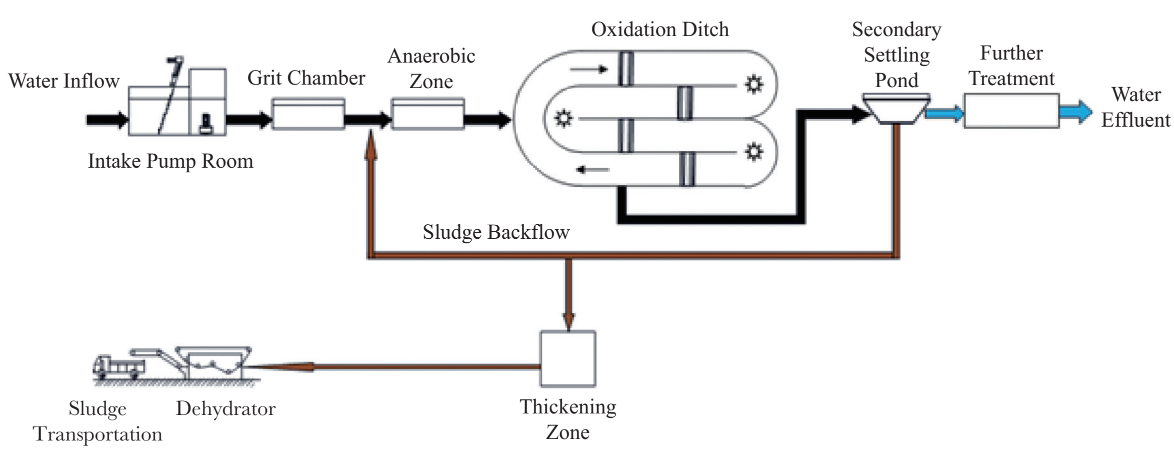
Specifically, the incoming wastewater is first passed through a coarse screen, which filters the larger particles suspended in or floating on the wastewater. It is then passed through a fine screen, with filers the smaller particles suspended in or floating on the wastewater. It then goes to the grit chamber, which settles and removes inorganic solids with high densities. The effluent from the grit chamber goes into a biological reaction pool, mixes with the activated sludge and aerates. By fully mixing the wastewater with activated sludge and dissolved oxygen, an environment suitable for micro-organism growth is created, which allows the organic wastes in the biological reaction pool to be continuously absorbed and decomposed by the micro-organisms, thus purifying the wastewater. The effluent from the biological reaction pool goes into a secondary settling pond, which separates the sludge from the water. Part of the settled sludge is returned to the biological reaction pool to go through the process again, and the rest of the sludge is removed from this system. The supernatant liquid flows on for further treatment. The activated sludge process has the advantage of producing large amounts of high quality effluent at low costs, which is ideal for our facilities.

Specifically, our facilities have adopted the following variants of the activated sludge process:

The Oxidation Ditch Process

Kunming No. 1 Water Purification Plant uses the oxidation ditch process for wastewater treatment. An oxidation ditch is a modified activated sludge biological treatment process that utilizes an end-to-end aeration ditch with circular flow to undertake the reactions. The wastewater-sludge mixture continuously circulates along the closed ditch and, with configured aeration equipment, goes through a cyclical aerobic-anoxic-anaerobic process which permits the simultaneous removal of organic wastes, nitrates and phosphates. The main advantages of the oxidation ditch are long hydraulic retention time, low organic burden and long sludge age, which allow good treatment quality with low operational requirements at low operation and maintenance costs.

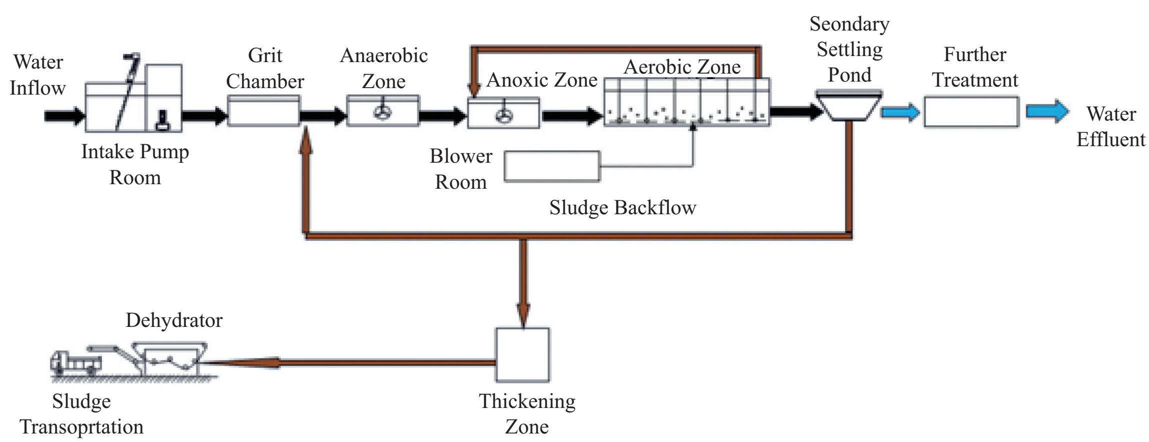
The following diagram illustrates the details of our oxidation ditch process:



The A²/O process

Kunming No. 2, No. 5, No. 6, No. 7 and No. 8 Water Purification Plants use the A²/O treatment process. A²/O is the short name for the anaerobic-anoxic-oxic biological nitrate and phosphates removal process, whose biological reaction pool consists of an anaerobic zone, an anoxic zone and an aerobic zone. Phosphate-accumulating bacteria release phosphates in the anaerobic zone and absorb easily dissolvable organic matters such as shorter-chain fatty acids. Denitrifying bacteria transforms the nitrates from the backflow into nitrogen and release it into the air through biological denitrification in the anoxic zone. Nitrobacteria transform ammonia from the inflow and other organic sources into nitrates through biological nitrification, oxidize and decompose organic matters and absorb phosphates. The main advantage of the A^2/O treatment process is the simultaneous nitrate and phosphate removal with lower total hydraulic retention time comparing to other similar processes, leading to operation stability, high treatment efficiency and low operational cost.

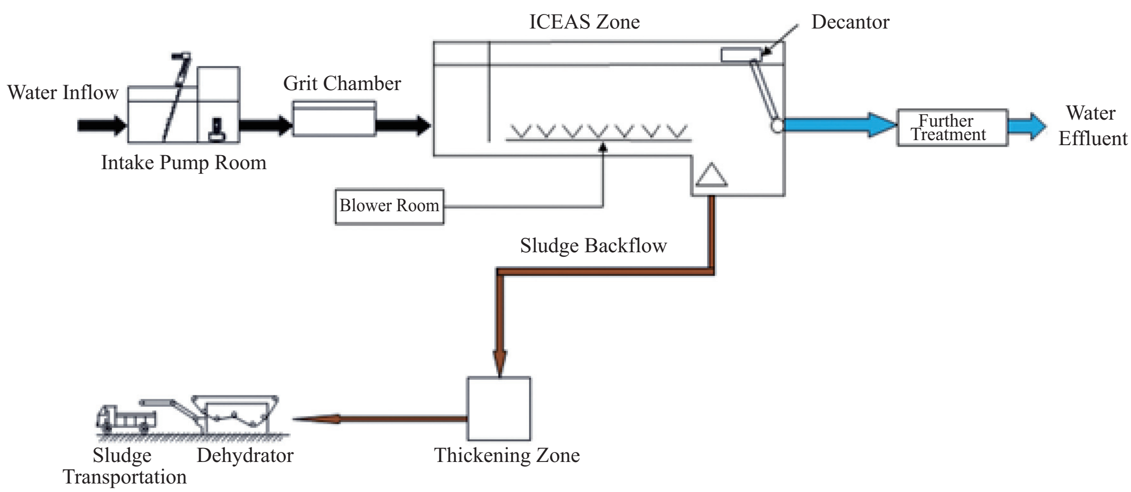
The following diagram illustrates the details of our A^2/O process:



ICEAS

Kunming No. 3 Water Purification Plant uses the ICEAS process, which is a modified version of the sequencing batch reactor activated sludge process. This method combines the reaction, settlement and discharge processes in one, the aeration, settlement and decanting procedures are performed in one pool in a continuous loop, and the secondary settling pond and the sludge backflow system in a standard activated sludge process is dispensed with. Under this system, the decomposition of waste is a plug flow process with the progression of time and the micro-organisms are placed in a condition of cyclical aerobic-anoxic-anaerobic change, thus allowing the treatment of waste with good denitrification and phosphate removal effects. The ICEAS has the advantages of small space requirement and potential capital cost savings by eliminating clarifiers and other equipment.

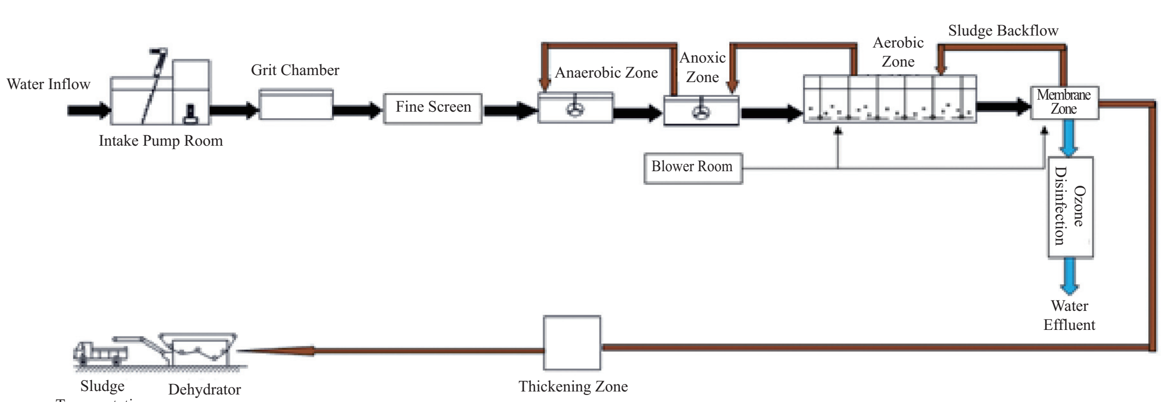
The following diagram illustrates the details of our ICEAS process:



The MBR process

Kunming No. 4 Water Purification Plants uses the MBR process, which is a new wastewater treatment technique that combines biological treatment with membrane filtration. In this treatment process, the membranes replace the secondary settling pond found in a typical activated sludge treatment system, thus leading to high efficiency in the separation of solid and liquid, high biomass concentration, and therefore high effectiveness in the removal of nitrate and other organic pollutants. The MBR system has the advantages of low residual waste (with suspended particles and turbidity in the effluent being close to zero), high effluent quality, small space requirements and ease of automation.

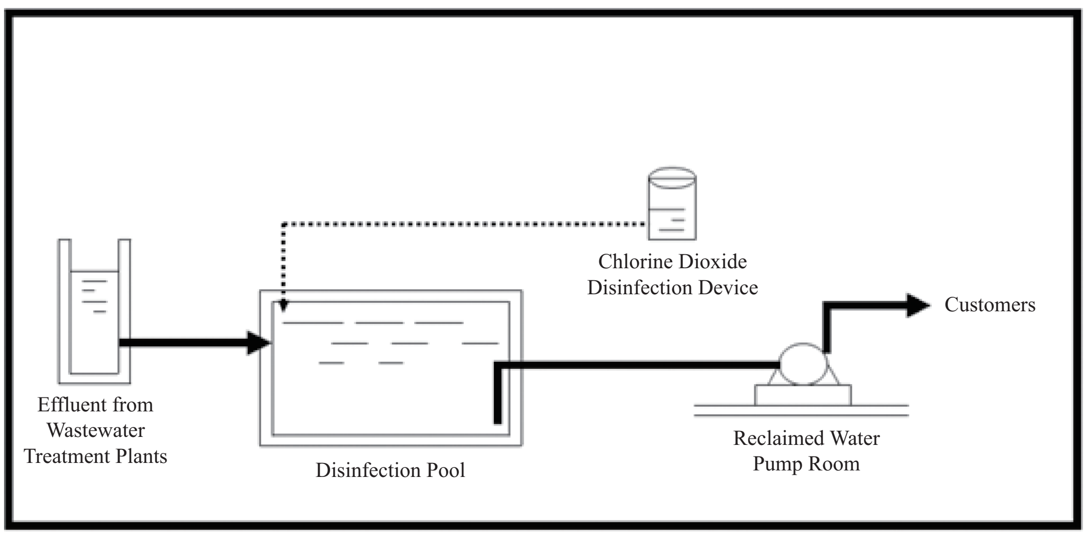
The following diagram illustrates the details of our MBR process:



Reclaimed Water Supply

We are able to provide reclaimed water to customers at a very low cost, due to the outstanding quality of our treated effluent. In order to further increase the quality of the treated effluent, we will disinfect the reclaimed water using chlorine dioxide. As of December 31, 2016, six of our wastewater treatment plants have been adapted with the capability of producing and supplying reclaimed water, with a daily supply capacity of approximately 44,000 m^3.

The following diagram illustrates the details of our reclaimed water treatment and supply process:



Project Investment and Management Process

We manage each of our projects by going through a series of processes. Our typical project management process includes the following:

Project Selection and Average Investment Payback Period

We have established a strict project selection system, under which every potential project is comprehensively assessed by the investment team, who will prepare a due diligence report for discussion at the general manager's meeting, which is attended by our managers, before submitting the proposal to the Board for approval. In order for a project to be considered, it must have a reasonable rate of return, be in line with our business mandate and contributive to our organic growth. Because of our project selection criteria, the average investment payback period for our projects ranges from five years to 10 years, or even over 10 years from the date of commencement of construction or acquisition of such projects.

Competitive Negotiation or Tender

When expanding into new geographical markets where there are no established concessionary operators, we acquire projects through competitive negotiations or tenders. For competitive negotiations, the local government establishes a working group and invites potential candidates to participate in one-on-one negotiations with the local government. The local government then selects a winner and enters into a concession agreement with such party. For competitive tenders, the local government publicly issues a tender notice to invite bidders to submit tender documents. The local government selects a winner to enter into a concession agreement based on the tender documents submitted. During the Track Record Period, we participated in one competitive tender, resulting in our successful acquisition of Fanchang County Suncun Town Wastewater Treatment Plant.

Concession Agreements Negotiation and Signing

After a successful negotiation, we sign a concession agreement with the local government to obtain the exclusive right to operate the business for a stipulated period. For the BOT and TOT project models, we acquire the rights to operate the water facilities pursuant to the concession agreement. For the BOO and TOO project model, we acquire not only the rights to operate the water treatment facilities, but also the underlying assets as well.

Operation and Maintenance During Concession Period

Our operation team is responsible for the overall supervision of the operation and maintenance of our wastewater treatment facilities. We are responsible for all operation, repair and maintenance costs during the operation phase. Our wastewater effluent is required to meet the National Discharge Standard (GB18918-2002). Our supplied running water is required to meet the National Drinking Water Standard (GB5749-2006). The quality of incoming wastewater or raw water and wastewater effluent or supplied running water is specified in the relevant concession agreements. For our wastewater treatment facilities, the quality of the incoming wastewater and wastewater effluent are subject to 24-hour monitoring by the relevant environmental protection authority. For our running water facilities, The quality of incoming raw water and supplied running water are tested once a month by the local quarantine authority. We also maintain our own laboratory-standard real-time monitoring systems to ensure that the quality of our incoming wastewater or raw water meets contractual requirements and that the quality of our wastewater effluent or supplied running water meets both regulatory and contractual standards. Maintenance is carried out regularly, usually every one to three months and on an ad-hoc basis. Maintenance generally does not require the suspension of operation of our facilities. At the end of each year, our operation and maintenance team formulates a maintenance plan for the following year and we will conduct maintenance work accordingly. Our maintenance plan ensures that all equipment facilities are maintained at least once per year. In addition to regular maintenance, our maintenance team will conduct ad-hoc maintenance, depending on actual needs and circumstances, to ensure that our equipment and facilities operate properly.

Transfer to the Government (BOT and TOT project models only)

We are required to transfer the facilities to the local governments following the conclusion of the concession period. We are typically required to carry out comprehensive repair work before expiry to ensure that the water facilities operate properly. After the completion of the transfer, we have no further operation or maintenance responsibilities.

ACQUISITIONS AFTER THE TRACK RECORD PERIOD

After the Track Record Period, we acquired the following entity interests and assets in order to expand our businesses:

Nantong Project

We entered into a framework agreement on June 1, 2016 with Jiangsu Tianyingsaite Environment and Energy Group (江蘇天楹賽特環保能源集團有限公司) and Jiangsu Tianying Water Development Co., Ltd (江蘇天楹水務發展有限公司) to acquire 100% equity interests in Hongze Tianying Wastewater Treatment Co. Ltd. (洪澤天楹污水處理有限責任公司), Hai'an Qutang Wastewater Treatment Co. Ltd. (海安曲塘污水處理有限公司) and Hai'an Libao Wastewater Treatment Co. Ltd. (海安李堡污水處理有限公司) (the "**Nantong Project**"). Details of the wastewater treatment plants owned by these three companies and the terms of their respective concession agreements as of the Latest Practicable Date are set out below:

Facility	Project Type (before the proposed transaction)	Project Type (after the proposed transaction)	Designed Capacity	Concession Agreement				
				Counter-party	Location	Tariff	Remaining Concession Period	Minimum Intake
			('000 m^3 per day)			(RMB/m^3, including VAT)		('000 m^3 per day)
Hongze Tianying Wastewater Treatment Plant · · · · · · ·	BOT	TOT	40.0	Hongze County Bureau of Construction	Hongze, Jiangsu	0.78	24 years	100% of designed capacity
Qutang Wastewater Treatment Plant · · · · · ·	BOO	TOO	5.0	Qutang Town People's Government	Hai'an, Jiangsu	0.97	25 years	100% of designed capacity
Libao Wastewater Treatment Plant · · · · · ·	BOO	TOO	5.0	Libao Town People's Government	Hai'an, Jiangsu	0.90	25 years	100% of designed capacity

On October 30, 2016, we entered into three share transfer agreements ("**Share Transfer Agreements**") to acquire the three wastewater treatment companies for a total consideration of RMB80.0 million. Pursuant to the Share Transfer Agreements, we agreed to pay the considerations in two installments: 60% of the total considerations to be paid within 5 business days after the execution date of the Share Transfer Agreements, and the remaining 40% of the total considerations to be paid within 5 business days after the completion of the relevant industry and commerce registration formalities regarding the share transfer. The Share Transfer Agreements require the seller to settle all outstanding payables and liabilities of the companies, and contain customary conditions, representations and warranties among others. These transactions were completed in January 2017 and these three companies have been consolidated into the Group thereafter.

We consider the Nantong Project favorable to our Group as a whole due to the following reasons: (1) it will be our first project in Jiangsu Province; and (2) it has had solid historical financial performances, with gross margins at 56.9%, 53.2% and 55.9% for the years ended December 31, 2014, 2015 and 2016. Please see the section headed "Appendix I — Accountant's Report — III. Additional Financial Information" in this prospectus for the historical financial information of the Nantong Project.

For further details regarding our acquisitions after the Track Record Period, please see sections headed "Risk Factors — Risks Relating to Our Business and Industry — The acquisitions we made after the Track Record Period are uncertain and have legal, financial and other risks" and "Financial Information — Recent Developments" in this prospectus.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had eleven registered patents and five patent applications pending in the PRC for technologies relating to wastewater treatment, reclaimed water supply and sludge treatment. Our patents allow us to improve the wastewater treatment process, increase effluent quality and save costs. We also had 10 registered trademarks and seven registered copyrights in the PRC. Please see the section headed "Appendix VI — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights" in this prospectus for further details on intellectual properties owned by us as of the Latest Practicable Date.

We were not involved in any litigation or legal proceedings for violation of intellectual property rights of third parties, nor had we suffered from any infringement of our intellectual property during the Track Record Period and up to the Latest Practicable Date.

See "Appendix VI — Statutory and General Information — D. Other Information — 2. Litigation" for further details.

RESEARCH AND DEVELOPMENT

As of December 31, 2016, we had 40 research and development employees, the majority of whom held bachelor's degrees or above and had extensive experience in the water industry. For the years ended December 31, 2014, 2015 and 2016, our research and development expenses (recognized as incurred) were RMB3.9 million, RMB26.1 million and RMB7.4 million, respectively, accounting for 0.5%, 3.2% and 0.8% of our revenue, respectively. The government grants we recognized relating to our research and development were RMB3.7 million, RMB3.4 million and RMB6.3 million for the same periods, respectively.

Our research and development efforts focus on improving and adapting our existing technologies and treatment techniques for the purpose of increasing waste removal efficiency and decreasing unit production energy cost. Using our patents and process knowhow, we gained significant treatment efficiency and cost reduction. For example, after applying our proprietary technologies, for our Kunming No. 1 Water Purification Plant, which uses the oxidation ditch process, energy consumption decreased by 23.3%, effluent COD level decreased by 51.6%, NH_3-N level decreased by 81.3%, TN level decreased by 35.0%, TP level decreased by 33.3% and BOD level decreased by 45.9% from 2012 to 2016; for our Kunming No. 2 Water Purification Plant, which uses the A^2O process, energy consumption decreased by 35.3%, effluent COD level decreased by 52.2%, NH_3-N level decreased by 50.0%, TN level decreased by 13.7%, TP level decreased by 17.6% and BOD level decreased by 27.8% from 2012 to 2016. As a result of our technological research and development, the overall effluent quality of our facilities in Kunming main city area improved significantly: COD decreased by 53.8%, TP by 44.4%, NH_3-N by 63.8%, TN by 27.4% and BOD by 42.8% from 2012 to 2016. Moreover, the average energy consumption rate decreased 17.2% from 0.29 kWh/m^3 in 2012 to 0.24 kWh/m^3 in 2016, translating into an average cost saving of RMB11.7 million per year. For details of our R&D approach and policy, please see sections headed "— Our Competitive Strengths — A pioneer in technological innovation with strong technical and R&D capabilities in the industry, as reflected by our proprietary patents and industy-leading effluent quality and energy efficiency" and "— Our Strategies — Build an integrated technological innovation system, apply innovations to drive our growth and solidify our technical competitiveness" in this prospectus.

We believe R&D is key to our future growth, and have therefore entered into collaboration agreements with domestic and foreign research institutions. The terms of our collaboration arrangements for research projects vary, depending on the subject and nature of the research and our arrangements with our research partners. Most of our projects during the Track Record Period were government-sponsored and were funded by a combination of government grants and our R&D team usually participated in the design of the research projects and the execution of field research work. For those research projects, we were typically entitled to the ownership of the intellectual property rights developed in the research process and there were usually no profit-sharing arrangements involved. During the Track Record Period, we worked with domestic and foreign institutions including Tsinghua University, Yunnan University, Beijing SYS Science and Technology Co., Ltd., Beijing Kejingyuan Technology Co., Ltd., HKF Technology L.L.C of the USA, and Lavaris

Technologies GmbH of Germany, among many others, to conduct research and develop technologies that are not only related to water services but also have bearings on environmental protection in general. We believe those R&D initiatives will enhance the performance of our current businesses.

The following table sets forth the details of our R&D initiatives since 2011:

Year	Research Project Name	Collaborator	Research Goal	Applicable Business Segment
2011–2015	Research and Demonstration on Key Technologies of Overall Reduction of Contamination and Water Quality Control in Main Urban Area of Kunming	Tsinghua University, Tsinghua University Graduate School at Shenzhen, Xi'an University of Architecture and Technology, Beijing Municipal Engineering Research Institute, Shanghai Municipal Engineering Design and Research Institute, Beijing Tsinghua University Urban Plan and Design Institute Ltd., etc.	Emphasizing on research on design and optimizing the scheduling of rainwater and sewage pipe network and storage tank system, improving operation and power-saving of the sewage treatment system, reduction and utilization of sludge, build a system of overall reduction of contamination and improvement on water quality through integrated application of key technologies and engineering demonstration.	Power-saving and improved operation of sewage treatment plant, reduction and utilization of sludge, enhanced sewage treatment in raining season, etc.
2011–2012	Information Platform for Comprehensive Utilization of Reclaimed Water in Dianchi Drainage Basin	Kunming Science and Technology Bureau	Realize scientific administration, by using comprehensive GIS technology, spatial database technology and computer network technology, establish spatial database of utilizing reclaimed water in Dianchi Lake.	Providing basic data on the reclaimed water utilization sector in Dianchi drainage basin and offering support for scientific decision-making.

Year	Research Project Name	Collaborator	Research Goal	Applicable Business Segment
2012–2015	Research and Engineering Demonstration on Key Technologies of Improving Water Environment in Old Canal of Kunming	Tsinghua University, Tsinghua University Graduate School at Shenzhen, Tongji University, Beijing University of Technology, Guangzhou Municipal Engineering Design and Research Institute, Beijing Tsinghua University Urban Plan and Design Institute Co., Ltd., Kunming Science of Landscape Research Institute, etc.	Considering the general requirement of Dianchi environment protection, aiming at significant improvement in water environment and water ecosystem of the Old Canal, investigate and make a comprehensive plan of decontamination of the Old Canal drainage basin based on an analysis of environmental status of the Old Canal and recognition of the 'production — concentration — emission' pattern of contamination on a factual basis. Emphasize on research on key technologies such as solution for sewage interception and diversion, joint control of scheduling system of drainage system and sewage plant, optimized and high-standard operation of sewage treatment plant, water feeding and water quality control, ecological restoration of watercourse and so on. Build a support system of Old Canal water environment improvement with key technologies through integrated application of the technologies, and carry out engineering demonstration to provide experience and technological model for regulation of water in other cities.	Power-saving and optimized operation of sewage treatment plant, ecological restoration of watercourse, etc.
2013–2014	Research on and application of a municipal water pollution monitoring and water resources utilization integrated information system	Yunnan University and Yunnan University of Finance and Economics	To develop a municipal water pollution monitoring and water resources utilization integrated information system with the capacity of wastewater treatment online monitoring, effluent quality testing and analysis, reclaimed water utilization management and information publication.	Increase operational efficiency.

Year	Research Project Name	Collaborator	Research Goal	Applicable Business Segment
2013–2015	Research on Performance Regulation and Evaluation Technology of High-Standard Sewage Treatment	Beijing Tsinghua University Plan and Design Institute Co., Ltd.	Construct a performance evaluation index system for sewage treatment plant, realize evaluation on performance of sewage treatment plants with different technologies, on different scales and with different conditions of equipment; form a standardized model of performance regulation of sewage treatment plant, realize standardized management on equipment and producing process of sewage treatment plants; build an information platform of standardized performance regulation of sewage treatment plants and promote the application to other plants.	Management of production and operation of sewage treatment plant.
2014–2015	Research on Technology of Targeted Fermentation of Activated Sludge to Improve Nutrient Removal	Tsinghua University Graduate School at Shenzhen	Reducing sludge and improving nutrient removal of sludge through targeted fermentation, develop an effective sludge reclaiming technology named 'Endogenous-Carbon' based on physical, chemical or biological reaction, provide a feasible solution of reduction and nutrient removal of sludge for Kunming sewage treatment plant.	Production and operation of sewage treatment plant and reduction of sludge.
2014–2016	Research on A^2O and Inverted A^2O Technique of Nutrient Removal Based on BioWin Simulation	Kunming University of Science and Technology, Tsinghua University Graduate School at Shenzhen	Build a mathematic model fitting MBR technology of the Kunming No. 4 Water Purification Plant with BioWin, carry out research on MBR technology of nutrient removal, put forward a new technological solution of sewage treatment optimization based on software simulation and actual process research and optimization of power-saving and enhancement of nutrient removal technology, provide technology support for operation and management of the sewage treatment plant, perform process optimization and demonstration on power-saving technology and develop an exemplary technology that can be promoted.	Power-saving and improved operation of sewage treatment plant.

Year	Research Project Name	Collaborator	Research Goal	Applicable Business Segment
2014–2016	Research on and Application of a management system on the internet of thing relating to wastewater treatment and resource recycling in Dianchi Lake	Yunnan University and Yunnan University of Finance and Economics	To build a database and develop a management system on the internet of things relating to wastewater treatment and resource recycling in Dianchi Lake, including a vector digital map, an online wastewater treatment online monitoring system, a effluent quality testing system, a reclaimed water utilization management system and a wastewater treatment facilities power consumption monitoring system.	Increase management efficiency, provide data for our management's decision-making, decrease power consumption and reduce maintenance and other operational costs.
2015	Research on pulse aeration energy-saving technology used in wastewater treatment under model controlled conditions	None	To systemically develop such a mechanism and technology subject of pulse aeration that runs with compound multiple less angles or aerobic alternation while saving energy and reducing consumptions that an effective treatment technology and method can be provided for carbon-adhering wastewater treatment.	Production and management of wastewater treatment plants, energy conservation and operations of wastewater treatment plants.
2016	Biological speed separation filter technology for slightly contaminated water treatment	Beijing SYS Science and Technology Co., Ltd.	To test and acquire processes and technologies that can be widely applied in respect of slightly contaminated water treatment in Dianchi drainage basin, towns and villages and developed areas in Southeast Asia.	Slightly contaminated water treatment.

QUALITY CONTROL

We have also actively pursued the standardization of our management systems. As of December 31, 2016, the management systems of our municipal wastewater treatment operation, water quality monitoring, sludge treatment and transportation and reclaimed water utilization have met the ISO9001 quality management systems standard, the ISO14001 environmental management systems standard and the OHSAS18001 occupational health and safety management systems standard. We endeavor to ensure our water quality at different stages of our operations. Our quality control team has 105 employees, all of whom possess the necessary industry experience to maintain the quality of our operations. At the development planning stage, we utilize our substantial experience to assess the volume and quality of the wastewater to be treated or reclaimed water to be supplied and then design the wastewater treatment or reclaimed water supply facilities to cater to our customers' needs. During project construction, we apply our extensive project management skills to closely monitor the progress and quality of the construction and also engage a professional construction supervision firm to provide professional construction management service. When our wastewater treatment and reclaimed water supply facilities come into operation, we continuously monitor the quality of the wastewater effluent and reclaimed water by using a sophisticated laboratory-standard computerized control system. This computerized control system is able to maintain on-line and real-time tracking and provide efficiency-enhancing adjustment feedbacks on every aspects of our facility operation, thus lowering water treatment costs by reducing energy consumption and amount of chemicals used. Additionally, quality benchmarks of our treated effluents are uploaded online every two hours to the relevant government agencies to ensure our compliance with the regulatory standard.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material quality problems with respect to our wastewater effluent or reclaimed water supplies.

CUSTOMERS

During the Track Record Period, customers of our wastewater treatment services were primarily local governments in Yunnan Province, the PRC. Customers of our reclaimed water supply services were municipal government agencies, public parks, and residential property management companies. Our running water supply service customers were generally local residents, commercial and industrial users and other institutions located in the areas covered by our concession agreements. We enter into concession agreements with our government customers. For details of the terms of our concession agreements, please see the section headed "— Our Businesses — Concession Agreements" in this prospectus. During the Track Record Period, we did not receive any material complaints from our customers. In general, we grant a credit period of one month to our customers. We have been providing services to our major customers for a period ranging from one to more than five years.

Our largest customer during the Track Record Period was the Kunming Finance Bureau. For the years ended December 31, 2014, 2015 and 2016, revenue attributable to our largest customer for approximately RMB432.9 million, RMB431.4 million and RMB487.0 million, respectively. The percentage of our total revenue attributable to our largest customer for the same periods was approximately 58.9%, 52.3% and 53.2%, respectively. The revenue attributable to our top five largest customers for the years ended December 31, 2014, 2015 and 2016 was approximately RMB709.4 million, RMB764.0 million and RMB814.0 million, respectively. The percentage of our total revenue attributable to our top five customers for the same periods was approximately 96.5%, 92.6% and 89.0%, respectively.

The table below set out the details of our top five customers during the Track Record Period:

Year ended December 31,								
2014			2015			2016		
Customer	(RMB'000)	%	Customer	(RMB'000)	%	Customer	(RMB'000)	%
Kunming Finance Bureau	432,947	58.9%	Kunming Finance Bureau	431,433	52.3%	Kunming Finance Bureau	487,008	53.2%
Kunming CGE Water Supply Co., Ltd.	228,712	31.1%	Kunming CGE Water Supply Co., Ltd.	217,510	26.4%	Kunming CGE Water Supply Co., Ltd.	191,066	20.9%
Our Controlling Shareholder	24,468	3.3%	Our Controlling Shareholder	48,143	5.8%	Our Controlling Shareholder	83,560	9.1%
Yiliang County Government	12,383	1.7%	Yiliang County Government	38,216	4.6%	Shidian County Government	26,207	2.9%
Fumin Industrial Park State-owned Assets Management Co. Ltd.	10,852	1.5%	Shidian County Government	28,740	3.5%	Yiliang County Government	26,187	2.9%
Top Five Total	709,362	96.5%	**Top Five Total**	764,042	92.6%	**Top Five Total**	814,028	89.0%

Our revenue mainly comes from wastewater treatment service in Kunming. The wastewater treatment fee paid to us came either from government purchase, public procurement, or direct collection from people and entities using self-supplied water sources. Of those fees, payment from government purchase comes directly from the Kunming Finance Bureau, who was our largest customer during the Track Record Period; payment from public procurement is collected by Kunming CGE Water Supply Co., Ltd., the running water supplier in Kunming main city area, who was our second largest customer during the Track Record Period. Specifically, end users of running water in Kunming main city area would pay a statutory wastewater treatment fee to Kunming CGE Water Supply Co., Ltd., and any difference between the amount that we are entitled to receive under the concession agreement and the amount we actually received from public procurement and direct collection would be paid to us by the Kunming Finance Bureau through government purchase. See "Industry Overview — Overview of China's Water Sector — Industry Chain of China's Municipal Water Industry" and "Industry Overview — Pricing Mechanism of Water Tariff and Wastewater Treatment Fee" for more details.

We also provided management services to our Controlling Shareholder during the Track Record Period. Please see the section headed "Relationship with the Controlling Shareholder" in this prospectus. Our other major customers during the Track Record Period include the Yiliang County and Shidian County Governments, to whom we provided wastewater treatment and construction services under the relevant concession agreements, Fumin Industrial Park State-owned Assets Management Co. Ltd., to whom we provided construction service under the BT model (the construction of Fumin Industrial Park Running Water Supply Plant was completed in 2014 and therefore we did not recognize any revenue afterward), and Kunming Panasia Lakes Integrated Regulation Co., Ltd., to whom we provided transportation services.

During the Track Record Period, we did not have any major customers who were also our suppliers.

Except for our Controlling Shareholder and Kunming Panasia Lakes Integrated Regulation Co., Ltd., who is controlled by our Controlling Shareholder, all of our five largest customers are independent third parties, and none of our Directors, their associates or any Shareholder (who, to the knowledge of our Directors, owned 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 principal suppliers during the Track Record Period were power suppliers who provided electricity to our facilities, construction contractors who designed and constructed our facilities and suppliers of raw materials including wastewater treatment chemicals and other equipment maintenance replacements. We have been working with our major suppliers for a period ranging from one to more than five years. Our five largest suppliers typically offer us credit terms of one month.

Our largest supplier during the Track Record Period was the Kunming Power Supply Bureau of Yunnan Power Grid Co. Our purchases from our largest supplier for the years ended December 31, 2014, 2015 and 2016 were RMB84.6 million, RMB88.9 million and RMB74.9 million, amounting to approximately 57.4%, 42.0% and 35.1% of our total purchases, respectively. Our purchases from our top five suppliers for the years ended December 31, 2014, 2015 and 2016 were RMB107.4 million, RMB163.9 million and RMB147.4 million, amounting to approximately 72.8%, 77.5% and 69.1% of our total purchases, respectively.

The table below set out the details of our top five suppliers during the Track Record Period:

Year ended December 31,								
2014			2015			2016		
Supplier	(RMB'000)	%	Supplier	(RMB'000)	%	Supplier	(RMB'000)	%
Kunming Power Supply Bureau of Yunnan Power Grid Co.	84,635	57.4%	Kunming Power Supply Bureau of Yunnan Power Grid Co.	88,937	42.0%	Kunming Power Supply Bureau of Yunnan Power Grid Co.	74,861	35.1%
Kunming Yuegaogongmao Co., Ltd.	4,872	3.3%	Yunnan Junfeng Construction Engineering Co. Ltd. (雲南昀鋒建築工程有限公司)	28,740	13.6%	Yunnan Junfeng Construction Engineering Co. Ltd.	26,207	12.3%
Yunnan Jingsheng Construction Engineering Co. Ltd.	12,858	8.7%	Shanghai Civil Engineering Co., Ltd of China Railway Group Limited (中鐵上海工程局集團有限公司)	38,216	18.1%	Shanghai Civil Engineering Co., Ltd of China Railway Group Limited	26,186	12.3%
Shenzhen Pufeisi Environment and Technology Co., Ltd. (深圳市浦飛思環保科技有限公司)	2,721	1.8%	Kunming Yuegaogongmao Co., Ltd.	5,595	2.6%	Yunnan Yunlu Landscape Decoration Engineering Co., Ltd (雲南雲路景觀裝飾工程有限公司)	10,121	4.7%
Kunming Zhouyi Environment and Technology Co., Ltd.	2,332	1.6%	Shenzhen Pufeisi Environment and Technology Co., Ltd. (深圳市浦飛思環保科技有限公司)	2,442	1.2%	Yunnan Hengtai Construction Co., Ltd (雲南衡泰建設有限公司)	10,053	4.7%
Top Five Total	107,418	72.8%	**Top Five Total**	163,929	77.5%	**Top Five Total**	147,428	69.1%

During the Track Record Period, our largest supplier was Kunming Power Supply Bureau of Yunnan Power Grid Co., the electric utility company in Kunming who provides power for our operations. Our other major suppliers during the Track Record Period include construction contractors such as the Shanghai Civil Engineering Co., Ltd of China Railway Group Limited, Yunnan Junfeng Construction Engineering Co. Ltd. and Yunnan Jingsheng Construction Engineering Co. Ltd. who undertakes the construction portions of our projects for us, and raw materials providers such as Kunming Yuegaogongmao Co., Ltd., Kunming Zunfan Chemical Products Co., Ltd., Shenzhen Pufeisi Environment and Technology Co., Ltd. Kunming Zhouyi Environment and Technology Co., Ltd. and Shenzhen Zhiyuanda Environmental Protection Equipment Co. Ltd. who provides water treatment chemicals and others materials for the operation and maintenance of our facilities.

Our principal raw materials are wastewater treatment chemicals and other equipment maintenance replacements. For 2015 and 2016, we spent RMB29.5 million and RMB32.0 million to purchase raw materials, of which chemicals cost was RMB22.5 million and RMB27.4 million, accounting for 76.3% and 85.5% of our total purchase of raw materials, respectively.

All of our five largest suppliers are independent third parties based in China, and none of our Directors, their associates or any Shareholder (who, to the knowledge of our Directors, owned more than 5% of our Company's share capital as of the Latest Practicable Date) had any interest in any of our five largest raw material and equipment suppliers during the Track Record Period. We did not enter into any long-term agreements with our major suppliers during the Track Record Period.

Except for our utility service providers, we have established a centralized procurement policy for the selection of suppliers. Under the policy, our subsidiary companies are required to solicit bids from different suppliers, and make the selection based on price, quality, and timely delivery of the products. All supply contracts will need to be reviewed and approved by the headquarter, which will conduct periodic tests to check the quality of the delivered products. During the Track Record Period, we had sourced our raw materials from a few local suppliers located near Kunming in order to benefit from the economies of scale and proximity, which allowed for faster and cheaper delivery of raw materials. We generally pay our suppliers within 10 to 15 days after receiving the delivery of goods, subject to internal review and approval. For our major suppliers, we often settle accounts monthly, and as of December 31, 2016, we did not have any payments in arrears.

We have readily available alternative suppliers in the market who offer similar materials with terms comparable to our existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we periodically seek potential alternative suppliers and obtain quotations from such suppliers with the view to keeping in contact with potential suppliers. Additionally, in order to secure reliable supply channels and ensure the quality of our supplies, in December 2015, we acquired 51% interest in Kunming Heertai Environmental Industry & Trade Co. Ltd., a producer of water treatment chemicals, from whom we intend to procure a majority of our chemicals in the future. As of the Latest Practicable Date, we had not experienced any material difficulties in obtaining any utility services, construction services, or supplies of raw materials or equipment for our business operations.

RAW MATERIALS AND EQUIPMENT

The principal raw materials we use in our wastewater treatment facilities, reclaimed water supply and sludge treatment processes include chemicals such as poly aluminum chloride and poly acryla mide. The principal equipment we use in our operations includes, among others, water pump, sludge pump, blower and ultraviolet disinfection lamp. We generally purchase our raw materials from local suppliers and equipment from certified manufacturers and importers for our operations.

SALES AND MARKETING

Our marketing activities are undertaken by our market development department, which is generally responsible for public and customer relations, standard control, tender submissions, business negotiations and client development, in collaboration with the corporate management and R&D departments. The emphasis of our marketing activities is to expand our wastewater treatment, reclaimed water supply, and running water supply businesses. Our high effluent quality, which can help the local governments meet their pollution reduction targets under the current regulatory scheme, is a very important factor in our marketing activities and in enhancing our reputation.

We have formulated different market development plans according to the characteristics of different regions. As a leading SOE in Kunming, we have wide access to local governments, especially in Yunnan and the neighboring Guizhou Province. We also attend trade fairs and engage in competitive biddings, such as those organized through the Changjiang Equity Exchange, to increase our brand recognition and explore opportunities.

During the Track Record Period, we had engaged a number of industry consultants who would provide us with reports and market updates regarding potential acquisition targets and other business opportunities to assist with our expansion strategy. Our marketing team review these proposals and follow up with projects that meet our project selection criteria and offer us reasonable returns. We pay these consultants only if a target they refer is successfully acquired by us, with a finder's fee ranging from one to three percent of the total consideration we pay, depending on the size of the deal. Because of our increased acquisition activities, we incurred finder's fees, which were included in the administrative expenses, amounting to nil, RMB6.0 million and RMB6.7 million for the years ended December 31, 2014, 2015 and 2016, respectively. All of these consultants are independent third parties. These fees form part of the professional expenses in the Accountant's Report set out in Appendix I to this prospectus.

PROJECT FINANCING

Often, we are responsible for financing the construction of our wastewater treatment facilities. As a result, we have to incur substantial capital expenditure in developing these facilities. Please see the section headed "Risk Factors — Risks Relating to Our Business and Industry — Our wastewater treatment, reclaimed water supply and running water supply projects are capital intensive with long payback periods and we may require external funding for these projects" in this prospectus. During the Track Record Period, we funded the development costs of our wastewater treatment plants primarily with internal resources, which were supplemented with bank loans and proceeds from a public bond offering.

For the years ended December 31, 2014, 2015 and 2016, our capital expenditures, including expenditures on intangible assets, land use right and property, plant and equipment, were RMB159.6 million, RMB408.0 million and RMB668.2 million, respectively. As of December 31, 2016, our outstanding borrowings balance amounted to RMB1,520.7 million. For the years ended December 31, 2014, 2015 and 2016, our borrowings bore a weighted average interest rate of 7.2%, 6.5% and 5.1% per annum, respectively. The term of our loans or debt instruments ranged from one to seven years. Please see the section headed "Financial Information — Indebtedness" in this prospectus.

Our planned capital expenditures for the year ending December 31, 2017 are RMB627.4 million. Such capital expenditures primarily relate to our investments in the construction of our wastewater treatment, reclaimed water supply, running water supply facilities, and the related pipeline networks. We plan to fund our future capital expenditures through a combination of our internal resources, bank borrowings, proceeds from the issuance of corporate bonds and proceeds from the Global Offering. See "Financial Information — Capital Expenditure" for details.

Our planned capital expenditures may be subject to change due to variations in our future cash flows, results of operations and financial condition, changes in the PRC and the world economy, the availability of financing on terms acceptable to us, technical and other problems in obtaining and installing equipment, changes in the regulatory environment in the PRC and other factors.

AWARDS AND RECOGNITION

We have received various awards and recognitions in the PRC for our operations. The following table sets forth some of the awards and recognitions we had received as of December 31, 2016:

Year	Award/Certificate	Entity Awarded	Awarding Body
2014	Yunnan Province May Day Labor Medal (雲南省五一勞動獎狀)	Our Company	Yunnan Provincial Federation of Trade Unions
2014	High-tech Enterprise (高新技術企業)	Our Company	Yunnan Provincial Science and Technology Department, etc.
2014	12th Outstanding Enterprises in Kunming City (昆明市第十二屆優秀企業)	Our Company	Kunming Government, etc.

Year	Award/Certificate	Entity Awarded	Awarding Body
2014	Technological Innovation Pilot Enterprise (科技創新型試點企業)	Our Company	Kunming Science and Technology Bureau
2013	10 Best Wastewater Treatment Operator; Pioneer in Reclaimed Water Use (全國十佳達標單位；再生水利用先進單位)	Kunming No. 3 Water Purification Plant	China Urban Water Association and National Committee of the Chinese Seamen & Construction Workers' Union
2013	10 Best Wastewater Treatment Operator; Pioneer in Energy Efficiency and Effluent Quality (全國十佳達標單位；節能減排先進單位)	Kunming No. 7 Water Purification Plant	China Urban Water Association and National Committee of the Chinese Seamen & Construction Workers' Union
2012	Exemplary Employer of Kunming for Talented Employees (昆明市人才工作示範單位)	Our Company	Organization Department of the Party Committee of Kunming
2012	Leading Employer of Kunming for Talented Employees (昆明市人才工作先進單位)	Our Company	Organization Department of the Party Committee of Kunming

Year	Award/Certificate	Entity Awarded	Awarding Body
2008	National 10 Best Operators of Urban Wastewater Treatment Plant (全國城鎮污水處理廠十佳運營單位)	Kunming No. 1 Wastewater Treatment Plant (昆明市第一污水處理廠)	China Urban Water Association
2008	National Outstanding Operation and Management Unit of Urban Wastewater Treatment Plant (全國城鎮污水處理廠優秀運營管理單位)	Kunming No. 2 Wastewater Treatment Plant (昆明市第二污水處理廠)	China Urban Water Association
2008	National Outstanding Operation and Management Unit of Urban Wastewater Treatment Plant (全國城鎮污水處理廠優秀運營管理單位)	Kunming No. 4 Wastewater Treatment Plant (昆明市第四污水處理廠)	China Urban Water Association
2008	National Outstanding Operation and Management Unit of Urban Wastewater Treatment Plant (全國城鎮污水處理廠優秀運營管理單位); National Advanced Unit in Respect of A Single Indicator of Urban Wastewater Treatment Plant (全國城鎮污水處理廠單項先進單位)	Kunming No. 5 Wastewater Treatment Plant (昆明市第五污水處理廠)	China Urban Water Association
2004	National 10 Best Urban Wastewater Treatment Plants (全國十佳城市污水處理廠)	Kunming No. 4 Wastewater Treatment Plant (昆明市第四污水處理廠)	China Municipal Engineering Association

Year	Award/Certificate	Entity Awarded	Awarding Body
1995	National Advanced Operation and Management Unit of Urban Wastewater Treatment Plant (全國城市污水處理廠運行管理先進單位)	Kunming No. 1 Wastewater Treatment Plant (昆明市第一污水處理廠)	Ministry of Construction of the People's Republic of China (中華人民共和國建設部)

Most notably, we set standards for the wastewater treatment service in PRC, having served as the chief drafter of the "Technical Specifications for Operation, Maintenance and Safety of Municipal Wastewater Treatment Plants in Kunming, Yunnan Province" (雲南省城鎮污水處理廠運行維護及安全評定標準) (DBJ 53/T-32-2011) and a major drafter of the national "Technical Specifications for Operation, Maintenance and Safety of Municipal Wastewater Treatment Plants" (城鎮污水處理廠運行、維護及安全技術規程) (CJJ 60-2011).

ENVIRONMENTAL MATTERS

We are subject to national and local environmental protection laws and regulations in China, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Water Law of the PRC (《中華人民共和國水法》), the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例 》) and Yunnan Dianchi Lake Protection Regulations (《雲南省滇池保護條例》). For further details, please refer to the section headed "Regulations — PRC Laws and Regulations Relating to Environmental Protection" in this prospectus.

We have implemented measures in the operation of our business to ensure compliance with applicable requirements under the PRC environmental laws and regulations. Other than as disclosed below, during the Track Record Period and up to the Latest Practicable Date, we had not received any claims for failing to comply with the relevant licensing and environmental requirements.

We acquired a wastewater treatment plant located in Ziyun, Guizhou Province, Ziyun Wastewater Treatment Plant, in January 2016. Anshun Environmental Protection Agency (安順市環境保護局), which is the environmental authority supervising the area where this plant is located, fined the plant during an inspection visit an amount of RMB60,000 in May 2016 for the latter's violation of environmental regulations. It was alleged that individuals at the plant tampered with environmental inspection data by interfering the effluent NH_3-N analyzer. The incident occurred during the transitional period after our acquisition, when operation of such plant was still managed by the previous management team. The plant manager resigned as a result of the incident; we since (i) appointed our own management team to supervise operations of the plant, (ii) requested third-party professionals to oversee the plant's compliance with environmental laws and regulations and (iii) requested the plant's new management to adopt and vigorously implement our internal policies and procedures in respect to business conduct and quality control, so as to prevent similar incidents from occurring going forward. Our PRC legal counsel confirmed to us that there would not be additional fines or penalties imposed on us in relation to this incident. This is a one-off incident; other than this incident, we have not had other violations of environmental laws or regulations.

Our PRC legal counsel has advised that, as of the Latest Practicable Date, we obtained all the material environmental licenses and certificates for each of our facilities, and we had complied in all material respects with the relevant environmental laws and regulations.

Our environmental compliance expenses were RMB2.5 million, RMB2.5 million and RMB2.5 million for the years ended December 31, 2014, 2015 and 2016, respectively. To the best of our Directors' knowledge, information and belief, we do not expect our costs of compliance with environmental laws and regulations to increase significantly in the near future.

HEALTH AND SAFETY COMPLIANCE

Pursuant to national and local health and safety laws and regulations in China, we are required to provide our employees with a safe working environment, which includes providing adequate protective clothing and gear, providing safety education and training and having dedicated safety management personnel, among other requirements. We have formulated and enacted various internal safety codes and standards to protect our staff at work. Moreover, operators of certain wastewater treatment equipment must undergo special training and obtain special equipment operator certificates. We also conduct regular inspection and maintenance checks on our equipment to ensure that they are in compliance with the applicable national or industrial standards in respect of their design, manufacturing, installation and use. For the years ended December 31, 2014, 2015 and 2016, we spent RMB2.5 million, RMB5.1 million and RMB6.2 million, respectively, to remove and rectify potential safety hazards.

We believe our health and safety control measures are adequate and comply with applicable national and local health and safety laws and regulations in China. During the Track Record Period and up to the Latest Practicable Date, none of our employees have been involved in any major accident in the course of their employment and we had complied with the applicable national and local health and safety laws and regulations in all material respects, and the relevant PRC authorities have not imposed any sanctions or penalty on us for incidents of non-compliance of any health and safety laws or regulations in China.

INSURANCE

We currently hold insurance policies that are sufficient for our operations. In accordance with applicable PRC regulations on social insurance and housing funds, we contribute to social insurance, including pension, medical insurance, unemployment insurance, occupational injuries insurance and childbirth insurance, as well as a housing fund for our employees. According to confirmations issued by respective government authorities, which are the competent authorities according to our PRC legal counsel, each of our PRC subsidiaries have made social insurance contributions for their employees in accordance with the requirements pursuant to the applicable laws and regulations and we have not been subject to any penalty, and there has been no outstanding social insurance payment. Pursuant to confirmations issued by the local housing fund authority, which is the competent authority according to our PRC legal counsel, each of the PRC subsidiaries have made housing fund contributions for our employees. According to our PRC legal counsel, we had complied with the statutory social insurance and housing fund obligations applicable to us in all material respects under PRC laws during the Track Record Period and up to the Latest Practicable Date.

As advised by our PRC legal counsel, we are not required under PRC law to maintain insurance for the construction and operation of our wastewater treatment facilities. We do not maintain insurance because it is not mandatory for us to purchase insurance for the construction and operation of our facilities and we consider the risks normally associated with such activities low. We maintain insurance for some of our employees covering accident claims arising during the course of construction. Furthermore, we have developed and implemented a safety management policy and have provided safety training for our operating personnel and ensured that the operators have undergone special training. Based on the overall assessment of our present business operation risks, our Directors are of the view that such insurance is not necessary and that our current insurance coverage is adequate and in line with the industry norm. In the future, as our operations expand, we intend to reassess such operating risk and determine if additional insurance is necessary.

During the Track Record Period and up to the Latest Practicable Date, no material workers' compensation claims, third party liability claims or accident compensation claims had been filed against us. We cannot assure you that such claims will not be brought against us in the future. Please see the section headed "Risk Factors — Risks Relating to Our Business and Industry — Our insurance coverage may not adequately cover the risks related to our business and operations" in this prospectus.

COMPETITION

The wastewater treatment and reclaimed water supply market in Yunnan Province, the PRC, is generally dominated by the local wastewater treatment companies in the relevant cities or regions, which usually have obtained concessions from the relevant local governments or have gained natural monopolistic or near-monopolistic status. As regulatory authorities in the PRC tightly control the development of wastewater treatment facilities, wastewater treatment companies do not build wastewater treatment facilities covering the same areas and customers.

In particular, under the concession agreements we have entered into, we have been granted an exclusive right to provide wastewater treatment services and encountered no direct competition in Kunming. Accordingly, as of the Latest Practicable Date, we were the dominant service provider in respect of wastewater treatment services in Kunming. Outside of our concession areas, however, the various wastewater treatment service providers, which include state-owned enterprises, privately owned companies and foreign companies, often compete with each other to bid for new projects from the local governments. Please see the section headed "Industry Overview — Overview of China's Municipal Wastewater Treatment Industry — Competitive Landscape" in this prospectus for details.

EMPLOYEES

As of December 31, 2016, we had 587 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of December 31, 2016:

Function	Number
Management and Administration	81
Finance	16
R&D	40
Quality Monitoring	120
Marketing	15
Operations	299
Construction and Maintenance	16
Total	587

We recruit our employees on the open market. Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the years ended December 31, 2014, 2015 and 2016, our employee benefit and labor expenses were approximately RMB74.7 million, RMB89.6 million and RMB112.2 million, respectively.

We believe our employees are the most valuable resources to achieve our success. To ensure the quality of our employees at all levels, we have in-house training programs to train our staff. New employees at our production facility receive trainings pertinent to their job duties. We also own the Kunming Dianchi Water Treatment Vocational Training School, which provides continuing training for our employees.

Our labor union communicates closely with the management regarding labor matters and represents our employees' interests. During the Track Record Period, we had not experienced any interruptions to our operations caused by major labor disputes and there were no complaints or claims from our employees which had a material adverse effect on our business. Our Directors believe that we have a good relationship with our employees.

During the Track Record Period, we complied with the applicable labor laws and regulations in all material aspects.

In accordance with applicable PRC regulations on social insurance and housing funds, we contribute to social insurance, including pension, medical insurance, unemployment insurance, occupational injuries insurance and childbirth insurance, as well as a housing fund for our employees. Please see the section headed "Business — Insurance" in this prospectus.

PROPERTIES

According to our latest audited consolidated statements of financial position in the accountant's report set forth in Appendix I to this prospectus, the total carrying amount of our property interests as of December 31, 2016 was RMB1,871.1 million, constituting approximately 40.6% of our total assets. As of December 31, 2016, (i) no single property interest that formed part of our property activities (as defined in Rule 5.01 of the Listing Rules) and (ii) no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests. As such, according to section 6(2) of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) under paragraph 34(2) of the Third Schedule to Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires us to submit a valuation report for all of our interests in lands and buildings.

To the best knowledge of our Directors, there were no encumbrances on the land use rights owned by us, the local governments or their designees or other third parties as at the Latest Practicable Date.

As at the Latest Practicable Date, all the material properties we occupy relate to projects operated under long-term concessionary arrangements awarded by various governments. Set out below is an overview of the property interests in respect of our concession projects:

- We have obtained the relevant land use right certificates/building ownership certificates, or where such certificates are absent, written confirmations from the relevant and competent government authorities confirming our right to legally use the parcels of land underlying such projects and/or the relevant buildings in accordance with PRC laws and regulations; and, where applicable, there are no legal impediments for us being granted/transferred the relevant certificates.

- With regard to the land and buildings occupied by us for which we do not have land use right certificates/building ownership certificates, our PRC legal counsel has confirmed that we have the right to legally use such parcels of land and buildings, notwithstanding the absence of the relevant land use right certificates/building ownership certificates.

- With regard to all the written confirmations from the relevant government authorities for properties used in our concession projects as mentioned above, our PRC legal counsel has advised that such government authorities are the competent authorities to issue such confirmations.

Properties Owned by Us

Land Use Right Certificates

Our headquarters are located in Kunming. As of the Latest Practicable Date, we had obtained complete and valid land use right certificates for all the land owned by us in the PRC, with an aggregate site area of approximately 1.30 million square meters. Our PRC legal counsel has confirmed that we have legal ownership of such land and therefore have the right to occupy, use, transfer, lease or otherwise dispose of such land.

Building Ownership Certificates

As of the Latest Practicable Date, we had obtained 46 building ownership certificates for the buildings that we occupy and use. Our PRC legal counsel has confirmed that we have legal ownership of such buildings and therefore have the right to occupy, use, transfer, lease or otherwise dispose of such buildings.

We have not obtained the building ownership certificates for buildings related to the Luolonghe Wastewater Treatment Plant and Laoyuhe Wastewater Treatment Plant, which we acquired from Xindu Investment, nor for buildings related to Kunyang Water Purification Plant, Gucheng Water Purification Plant and Yunihe Water Purification Plant, which we acquired from our Controlling Shareholder, and which will not be available until the various plants have passed completion inspection, which is subject to obtaining relevant certificates in relation to government environmental inspection. We had not obtained such building ownership certificates because the sellers (including Xindu Investment and our Controlling Shareholder) from whom we acquired such projects failed to obtain the building ownership certificates prior to the commencement of operation of the projects. We believe we have implemented adequate and effective internal control measures to prevent the recurrence of such property issues. See "Business — Properties — Internal Control Measures". Prior to obtaining the relevant certificates, we cannot transfer, lease or dispose of the relevant lands or buildings.

As advised by our PRC legal counsel, given that we have obtained written confirmations from the competent government authorities confirming that (i) the construction of the plants have been in compliance with relevant laws and regulation, (ii) we have the right to legally occupy and use the relevant lands and buildings during the relevant concession periods, (iii) there is no legal impediment for us to obtain the relevant certificates as long as we complete the administrative procedures we currently are undertaking, and (iv) we acquired these plants in reliance of a mandate issued by the Kunming Municipal Government, which acknowledged that these plants are fully functional, authorized that these plants to commence commercial operations immediately under the Company's concession agreement and assured that the Company has its legal rights in occupying and operating these plants, the risk of us being penalized for lack of building ownership certificates (which were absent prior to the commencement of operation of Luolonghe and Laoyuhe Wastewater Treatment Plants and Kunyang, Gucheng and Yunihe Water Purification Plants) is remote, and our lack of the relevant certificates will not materially or adversely affect our business operations. We are in the process of obtaining the relevant certificates. Our Controlling Shareholder has also undertaken to compensate us in respect of any losses or expenses which may be incurred by us as a result of such title defects. Our PRC legal counsel has confirmed that we lawfully occupy and use such property for which we have not obtained the building ownership certificates, although prior to obtaining the building ownership certificates, there might be legal impediment for the Company to dispose of or create security over such property.

Considering that all such buildings are in safe condition, our PRC counsel's legal advice and the remedial actions taken or to be taken, our Directors are of the view that the above title defects, individually or in the aggregate, do not and will not have any material financial or operational impact on our Company, and further that none of the relevant properties, individually or collectively, are crucial to our business operation.

Properties Related to Our BOT and TOT Projects

As advised by our PRC legal counsel, we are not obliged to obtain the relevant land use right certificates and building ownership certificates with respect to our BOT and TOT projects, and there are no regulatory requirements under PRC laws or regulations which require the local governments who are counterparties to our concession agreements to obtain the land use right certificates or building ownership certificates with respect to our BOT and TOT projects, for the following reasons:

(a) As advised by the our PRC legal counsel, pursuant to the Circular on Issuing the Second Interpretation on Enterprise Accounting Principles (《財政部關於印發企業會計準則解釋第2號的通知》) promulgated by the MOF, properties underlying BOT and TOT projects do not belong to the operating companies because they must be transferred back to the local governments upon expiration of the relevant concession period. We therefore do not need to obtain title certificates for those properties relating to BOT and TOT projects.

(b) As advised by our PRC legal counsel, pursuant to our concession agreements, we can legally occupy and use the relevant properties on which the relevant BOT and TOT projects are located throughout the terms of the relevant concession agreements. We have the contractual rights to demand indemnification from the local governments who granted those concession rights for any claims arising from the lack of title certificate. Our PRC counsel has further confirmed that the local governments' lack of title certificates relating to certain of the Company's BOT and TOT projects will not constitute legal non-compliance of the Company, will not have any material adverse effect on the Company's operations and will not be a legal impediment to the listing of the Company under PRC law.

(c) Our PRC counsel confirms that we have received all necessary confirmations from the local governments regarding the Company's legal occupancy and use of the relevant properties on which the relevant BOT and TOT projects are located. Our PRC counsel has further confirmed that, pursuant to section 51 of the Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》, section 66 of the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) (the "**Land Administrative Law**") and section 3 of the Regulations on Completion Inspection of Buildings and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》), local governments at or above the county level have the right to administrate land and buildings and grant and issue land use right or building ownership certificates through their administrative departments. Based on these laws, those local governments who issued letters of confirmation to us have the authority to grant the right to occupy and use such properties and have the authority to confirm the legality of our occupation and use of such properties. Additionally, those local governments are also the counterparties to our BOT and TOT agreements who granted us the concession rights to undertake those projects.

The local governments of Zhuji City Paitou Town, Shidian County, Fanchang County Suncun Town, Yiliang County (彝良縣) and Malong County had obtained land use right certificates for the land underlying our relevant BOT and TOT projects in Zhuji, Shidian (Shidian County Wastewater Treatment Plant), Fanchang, Yiliang and Malong (Malong No. 1 Running Water Plant), respectively. We have also obtained the relevant land use right certificate of the Hongze Tianying Wastewater Treatment Plant, which we acquired in January 2017. For the remaining BOT and TOT projects that are under construction or in operation, the relevant local governments which are parties to our BOT/TOT concession agreements had not obtained certificates for relevant properties in relation to Yiliang County (宜良縣) No. 2 Wastewater Treatment Plant and Pipeline Network, Xundian County Water Purification Plant, Suijiang Wastewater Treatment Plant, Maotai Wastewater Treatment Plant, Ziyun Wastewater Treatment Plant, Zhongshu Wastewater Treatment Plant, Malong No. 2 Running Water Plant, Malong County Wastewater Treatment Plant, Malong Dongguang Water Plant and Shidian County No. 2 Running Water Supply Plant, for 10 parcels of land with an aggregate site area of approximately 204.1 thousand square meters, representing 70.0% of the combined site area of our BOT and TOT projects as of December 31, 2016. Our TOT projects without certificate contributed to 69.8% and 52.8% of the combined designed capacity and assets of our TOT projects as of December 31, 2016 and 61.9%, 55.2% and 48.3% of the combined actual treatment volume, revenue and net profit of our TOT projects for the year ended December 31, 2016, respectively, and all three of our BOT projects do not possess land use right certificates. However, our PRC legal counsel has advised that there are no regulatory requirements under PRC laws or regulations which require the local governments to obtain the land use right certificates or building ownership certificates with respect to our BOT/TOT projects. Our PRC legal counsel further confirmed that all of our BOT projects had obtained the relevant regulatory approvals and there was no legal impediment to their construction.

Specifically, we have received letters of confirmation for our BOT and TOT projects without title certificates from the following local government authorities, who are all relevant government bodies at or above the county level and counterparties (or their designated agencies) of our concession agreements, respectively:

Project	Authorities issuing the confirmations
Xundian County Water Purification Plant	Xundian County People's Government, Xundian County Bureau of Land and Resources and Xundian County Bureau of Housing and Rural-Urban Development
Malong County Wastewater Treatment Plant	Malong County People's Government, Malong County Bureau of Land and Resources and Malong County Bureau of Housing and Rural-Urban Development
Suijiang Wastewater Treatment Plant	Suijiang County People's Government, Suijiang County Bureau of Land and Resources and Suijiang County Bureau of Housing and Rural-Urban Development
Ziyun Wastewater Treatment Plant	Ziyun County People's Government, Ziyun County Bureau of Land and Resources and Ziyun County Bureau of Housing and Rural-Urban Development
Zhongshu Wastewater Treatment Plant	Renhuai City People's Government, Renhuai City Bureau of Land and Resources and Renhuai City Bureau of Housing and Rural-Urban Development
Maotai Wastewater Treatment Plant	Renhuai City People's Government, Renhuai City Bureau of Land and Resources and Renhuai City Bureau of Housing and Rural-Urban Development
Malong Dongguang Water Plant	Malong County People's Government, Malong County Bureau of Land and Resources and Malong County Bureau of Housing and Rural-Urban Development

Project	Authorities issuing the confirmations
Yiliang County No. 2 Wastewater Treatment Plant and Pipeline Network	Yiliang County People's Government, Yiliang County Bureau of Planning, Yiliang County Bureau of Housing and Rural-Urban Development and Yiliang County Bureau of Land Management
Shidian County No. 2 Running Water Supply Plant	Shidian County People's Government, Shidian County Bureau of Planning, Shidian County Bureau of Housing and Rural-Urban Development and Shidian County Bureau of Land Management
Malong No. 2 Running Water Plant	Malong County People's Government

Our PRC legal counsel confirmed that we have obtained all the necessary authoritative written confirmations from the relevant local people's governments, bureaus of housing and urban-rural development and bureaus of land and resources acknowledging our legal occupation of the properties including properties underlying the BOT/TOT project in which the Company has not obtained the relevant certificates and that our relevant BOT and TOT project companies can occupy and use the relevant land and the buildings constructed on the land on which the relevant BOT and TOT projects are located throughout terms of the relevant concession agreements. As advised by our PRC legal counsel, given that the aforesaid government authorities are authorized by the Land Administration Law and the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》(the "**Real Estate Law**") to issue confirmations and administer the land or buildings underlying our projects, the risk of these confirmations being challenged or revoked by higher-level government authorities is remote, and that the risk of us being penalized for failing to obtain land use right certificates prior to the commencement of construction or operation of our relevant BOT/TOT projects is also remote. Moreover, our counter-parties to those concession agreements have also undertaken to compensate us in respect of any losses or expenses which may be incurred by us as a result of such title defects.

Properties Leased by Us

As of the Latest Practicable Date, our Group companies leased three properties, with their details and lease terms as follow:

Lessee	Lessor	Use	Area	Yearly Rent	Lease Duration
			(m^2)		
Xundian Dianchi Water Co., Ltd. (previously named Xundian Tongqiu Wastewater Treatment Co., Ltd.) · · · · · · · · · · ·	Xundian County Bureau of Planning and Construction	Wastewater treatment services	20,213.33	RMB4.5/m^2	April 1, 2010 to March 31, 2040

Lessee	Lessor	Use	Area	Yearly Rent	Lease Duration
			(m^2)		
Kunming Heertai Environmental Industry & Trade Co. Ltd.	Yunnan Salt & Salt Chemical Industry Co. Ltd.	Production facilities	9,666.67	RMB6.0/m^2	April 28, 2008 to April 30, 2018
Fanchang County Dianchi Water Co. Ltd.	Fanchang County Suncun Town People's Government	Wastewater treatment services	N/A	RMB30,000.0/year for the first 20 years; RMB60,000.0/year for the remaining years	30 years from October 2015

Our PRC legal counsel advised that, although the owner of the property leased by Xundian Dianchi Water Co., Ltd. could not produce the relevant land use certificate, we occupied the property pursuant to our concession agreement with the Xundian County government in relation to our TOT project in this county and we have obtained all the necessary authoritative written confirmations from the relevant local government, bureau of housing and urban-rural development and bureau of land and resources acknowledging our legal occupation of the property and that our relevant project company can occupy and use the relevant land and the buildings constructed on the land on which the relevant project is located throughout terms of the relevant concession agreement. See the subsection "— Properties Related to Our BOT and TOT Projects" above for details on properties relating to TOT projects. Our PRC legal counsel has further advised us, taking into account that (i) according to the Land Administration Law and the Real Estate Law, the local governments at or above county level have the right to issue land use right certificates or building ownership certificates and can legally grant us the right to occupy and use such land or buildings, even if they are not in possession of the land use right certificates or building ownership certificates for such land or buildings; (ii) no land use right certificates nor building ownership certificates for the properties underlying our projects have been issued to, or are being applied for or by any party other than those relating to the relevant concession agreements (i.e. no competing claimant in title); and (iii) pursuant to relevant concession agreements and lease agreements, we are entitled to use and occupy the properties legally and validly, that (a) the authorities which issued aforesaid confirmation are competent authorities and (b) any failure by the local governments to obtain such certificates does not constitute a non-compliance with respect to our operations nor would impose any legal consequences on us.

Our Directors, based on the government confirmations where applicable, the relevant concession agreements, the advice of our PRC legal counsel and the indemnity undertaking provided by our Controlling Shareholder, are of the view that the above title defects, individually or in the aggregate, do not and will not have any material financial or operational impact on our Company, and further that none of the relevant properties, individually or collectively, are crucial to our business operations.

Internal Control Measures

We have implemented the following internal control measures to prevent the future occurrence of property issues such as those disclosed above.

1. We plan to establish procedures on asset management. Under these procedures, our market development department is responsible for ensuring effective communication with the local governments and applying for and obtaining land use right and building ownership certificates for our land and buildings. Our market development department is also responsible for safekeeping and maintaining our land use right and building ownership certificates, and collecting information and formulating plans to reinforce management of land use right and building ownership certificates. This department must oversee the completeness of our land use right and building ownership certificates files, and follow up on applying for and obtaining these certificates.

2. Our general manager's office is in charge of supervising our market development department to ensure completion of all necessary processes and obtaining all necessary land use right and building ownership certificates.

3. We plan to set up new requirements for any existing or new concession arrangements that involve land use rights. As part of the review process for the projects, our external legal counsel will be responsible for assisting in reviewing the contracts to ensure that the counterparty has the land use right certificates, and to be registered in the name of the relevant project company.

4. Our manager of legal affairs is responsible for regularly inspecting the land use right and building ownership certificates for our properties. In addition, our manager of legal affairs is responsible for ensuring that the compliance inspection of certificates and licenses will be conducted at least once a year.

5. Under the supervision of the manager of the financial department, the financial department and the market development department will jointly review our assets at the end of each year to verify the completeness of our legal documents, including the ownership documents of our assets. If they discover any deficiency, they will investigate the reasons for the deficiency and notify the relevant department to rectify such deficiency and complete any outstanding procedures in a timely manner.

6. We will engage Yunnan Beichuan Law Firm as our external PRC legal counsel to provide assistance on any legal and compliance matters relating to the land use right and building ownership certificates.

7. The internal audit department is responsible for conducting an annual inspection regarding compliance with the above measures. The inspection is part of the internal audit work, or a joint inspection will be conducted with the manager of legal affairs, as appropriate and the results will be reported to our Board.

The above measures are applicable to the management and control of any companies or projects to be developed by us or acquired by us during the due diligence process, in particular the land use right certificates and building ownership certificates, and the post-development and post-acquisition operation process, to ensure the operation of any companies or projects to be developed by us or acquired by us are in compliance with our internal control standards and the relevant applicable laws and regulations.

LEGAL, REGULATORY AND COMPLIANCE MATTERS

Our operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. In our compliance measures we aim to meet regulatory and industrial standards of relevant central and local government authorities and our industry associations. Please see the section headed "Regulations" in this prospectus for further details.

There are no material pending or threatened litigation matters or other proceedings, and we are not involved in litigation or other proceedings, that we believe would materially and adversely affect our business, financial condition or results of operations as of the Latest Practicable Date.

Our Directors have confirmed and our PRC legal counsel has opined that as of the Latest Practicable Date, save as otherwise disclosed in the section headed "— Properties — Properties Owned by Us" and in the section headed "— Licenses and Permits — Non-compliance", during the Track Record Period, we had complied with applicable PRC laws and regulations in all material respects, did not have any incidents of material non-compliance and had obtained all relevant permits, licenses and qualifications, authorizations and approvals material to our business operations.

LICENSES AND PERMITS

The material licenses and permits required to conduct our business in the PRC primarily include (i) waste discharge permits (排污許可證) for operating our wastewater treatment facilities; and (ii) health permits, urban water supply enterprise operating permits (城市供水企業經營許可證) for operating our running water supply business. For more information regarding the PRC laws and regulations that we are subject to, please see the section headed "Regulations" in this prospectus.

As advised by our PRC legal counsel, the following table sets forth the details of our material licenses and permits as of the Latest Practicable Date:

License/permit	License/permit holder	Date of latest grant	Expiry Date
Waste Discharge Permit	Malong Dianchi Water Co. Ltd.	June 24, 2016	June 24, 2020
Waste Discharge Permit	Fanchang County Dianchi Water Co. Ltd.	July 11, 2016	July 11, 2017
Waste Discharge Permit	Phase I of Gucheng Water Purification Plant	January 6, 2017	January 5, 2022
Waste Discharge Permit	Kunyang Water Purification Plant	January 6, 2017	January 5, 2022
Waste Discharge Permit	Yunihe Water Purification Plant	January 9, 2017	January 8, 2022
Waste Discharge Permit	Laoyuhe Wastewater Treatment Plant	November 11, 2016	November 10, 2020
Waste Discharge Permit	Luolonghe Wastewater Treatment Plant	November 2, 2016	November 1, 2021
Waste Discharge Permit	Guizhou Bafang Water Co. Ltd.	June 22, 2016	June 21, 2019

License/permit	License/permit holder	Date of latest grant	Expiry Date
Waste Discharge Permit	Shidian Dianchi Water Co. Ltd.	April 13, 2015	April 13, 2020
Waste Discharge Permit	Suijiang Dianchi Water Treatment Co., Ltd.	July 4, 2016	December 31, 2020
Waste Discharge Permit	Xundian Tongqiu Wastewater Treatment Co., Ltd.	July 26, 2013	July 26, 2018
Waste Discharge Permit	Zhuji Dianchi Water Co. Ltd.	July 1, 2016	December 31, 2020
Waste Discharge Permit	Yiliang Dianchi Water Co. Ltd.	January 11, 2015	December 31, 2020
Waste Discharge Permit	Kunming Wastewater Treatment and Operation Co. Ltd.	January 1, 2016	December 31, 2020
Waste Discharge Permit	Ziyun County Dianchi Water Co. Ltd.	March 22, 2016	March 21, 2019
Health Permit	Malong Dianchi Water Co. Ltd.	January 23, 2017	January 22, 2021
Urban Water Supply Enterprise Operating Permit	Malong Dianchi Water Co. Ltd.	July, 2015	July, 2020

As advised by our PRC counsel, as of the Latest Practicable Date, we have obtained all requisite principal licenses and permits that are material for our business operations in China. All of these licenses and permits remain in full effect, and no circumstances exist that would render the revocation or cancellation of our licenses and permits or have legal impediment to our business operations. Also, there is no legal impediment to renew any material licenses and permits for our business operations in China, as long as we comply with relevant legal requirements and take all necessary steps and submit relevant applications in accordance with the requirements prescribed by the applicable PRC laws and regulation.

For our BOT and BOO projects, after we have entered into relevant concession agreements, the competent government authorities or third party companies shall assist us in obtaining various certificates and permits that we need in order to commence construction of facilities used for our primary business. As advised by our PRC counsel, such certificates and permits include:

- Project establishment approval (立項) — approval issued by the development and reform commission at a competent administrative level for project establishment;

- Environmental impact assessment (環境影響評價) — a procedure required for assessment of the environmental impact of a construction project;

- Construction land use planning permit (建設用地土地規劃許可證) — a permit authorizing an entity to begin the survey, planning and design of a parcel of land;

- Construction planning permit (建設工程規劃許可證) — a certificate indicating government approval for an entity's overall planning and the design of a project;

- Construction work commencement permit (建設工程施工許可證) — a permit required for the commencement of construction of a project;

- Environmental protection inspection and acceptance formalities (環保驗收手續) — formalities required for the completion of environmental protection construction work for a project; and

- Completion inspection and acceptance formalities (工程竣工驗收手續) — formalities required for the completion of construction work for a project.

For our TOO projects, after we have entered into the relevant concession agreements, we acquire the concession rights and shall be entitled to the rights to operate existing facilities for an agreed consideration from the local government. After the expiration of the existing concession period, we retain the ownership of the facilities and secure a new concession right. For our TOT projects, we shall be entitled to the rights to use the buildings and structures built by the local governments or third-party companies.

Non-compliance

Except as disclosed hereunder, we have complied with the applicable PRC laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date. Below is a summary of certain non-compliance incidents during the Track Record Period and up to the Latest Practicable Date:

No.	Projects	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences	Rectification Actions taken
1.	Luolonghe Wastewater Treatment Plant	We have not obtained the construction planning permit and the construction work commencement permit.	We acquired the projects from the seller, Kunming Xindu Real Estate Co. Ltd. in January, 2016. The seller failed to obtain such permits prior to the construction and operation of the projects and is contractually obliged to obtain such permits.	As advised by our PRC legal counsel, we may be restricted from transferring or pledging of the plants.	(a) We are in the process of assisting the seller in obtaining the permits, which are subject to the completion of the administrative procedures. (b) We have obtained written confirmations issued by the planning bureau and the real estate registration center of Kunming City dated July 18, 2016 and by the housing and urban-rural development bureau of Kunming City dated July 25, 2016, confirming that (i) these plants are fully functional; (ii) they had authorized these plants to commence commercial operations immediately under our concession agreements; and (iii) we are entitled to occupy and operate these plants. (c) Our Controlling Shareholder has undertaken to compensate us in respect of any losses or expenses which may be incurred as a result of the lack of such permits.

No.	Projects	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences	Rectification Actions taken
2.	Laoyuhe Wastewater Treatment Plant	We have not obtained the construction work commencement permit.			
3.	Shidian County No. 2 Running Water Supply Plant	We failed to obtain the construction land use planning permit, the construction planning permit and the construction work commencement permit prior to the construction.	We were instructed by the government of Shidian county to commence the construction of the project prior to obtaining these permits.	As advised by our legal counsel, in reliance on the confirmation issued by governmental authorities, we will not be subject to any legal penalties.	(a) The government, the planning bureau, the housing and urban-rural development bureau and the land administration bureau of Shidian county have confirmed that (i) the use of land and the construction of the plant have been in compliance with relevant laws and regulation; (ii) we have the right to legally occupy and use the relevant land and buildings during the concession period; and (iii) no fines, suspension orders or cessation orders would be imposed on the operation and construction of our project during the concession period. (b) Our Controlling Shareholder has undertaken to compensate us in respect of any losses or expenses which may be incurred as a result of the lack of such permits. (c) We obtained these three permits on June 17, 2016.

No.	Projects	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences	Rectification Actions taken
4.	Projects relating to the construction of reclaimed water supply pipelines supplemental to the road construction in Kunming city for year 2012 and 2013	We failed to obtain the construction work commencement permit prior to the construction.	The government authorities of Kunming City demanded us to commence the construction of the projects prior to obtaining these permits in conjunction with the road construction.	As advised by our legal counsel, in reliance on the confirmation issued by governmental authorities, we will not be subject to any legal penalties.	(a) We have obtained written confirmations issued by the planning bureau of Kunming City dated May 26, 2016 and by the housing and construction bureau of Kunming City dated May 27, 2016, confirming that we will not be subject to any legal penalties. (b) Our Controlling Shareholder has undertaken to compensate us in respect of any losses or expenses which may be incurred as a result of the lack of such permit.

Our PRC legal counsel has advised that, based on the Law of the People's Republic of China on Urban and Rural Planning, (i) the aforesaid governmental authorities are competent authorities and are of sufficient level to issue the above-mentioned confirmations; and (ii) the risk of such confirmations being challenged or revoked by higher-level government authorities is remote. Theoretically, according to PRC laws, the legal consequences of entity lacking the relevant construction permits can be: (i) being requested to rectify the issue and requested to apply for the construction approvals, (ii) if the construction criteria are not met, being requested to stop the construction, and (iii) monetary penalties in an amount of 1% to 2% of the project contract amount imposed on the entity, and monetary penalties on the management in an amount of 5% to 10% of the penalties imposed on the entity.

We have adopted enhanced internal control measures to ensure future compliance, including designating our manager of legal affairs to be responsible for regularly inspecting the land use right and building ownership certificates for our properties, and also for ensuring the compliance inspection of certificates and licenses. For detail see "— Properties — Internal Control Measures".

Our Directors are of the view that, taking into account the advice of our PRC legal counsel, the above-mentioned confirmations, the indemnity undertaking provided by the Controlling shareholder and the internal control measures, the aforesaid non-compliance incidents will not materially or adversely affect our business operations or financial conditions.

INTERNAL CONTROL

We have established a set of comprehensive risk management policies and measures to identify, evaluate and manage risks arising from our operations. Our audit committee oversees the financial controls, internal control procedures and risk management systems of our Group. The head of the internal audit department is responsible for periodically reporting its findings and, where necessary, discusses any issues that may arise with our external legal advisers to help ensure that we are not in breach of relevant regulatory requirements or applicable laws.

We are exposed to various risks during our operation. Please see the section headed "Risk Factors" in this prospectus for further discussion. We focus on enhancing our internal control and risk management systems. We have implemented various policies and procedures to ensure effective risk management in each aspect of our operations, financial reporting and recording, fund management, and compliance with applicable laws and regulations of Hong Kong and the PRC. Our Board of Directors and senior management assume the overall responsibilities for overseeing the implementation of our internal control and risk management procedures and other measures throughout our Group. We have also established an audit committee oversees the financial controls, internal control procedures and risk management systems of our Group. See "Directors, Supervisors and Senior Management" for further information on the composition of the audit committee and the qualification of its members. We will engage and continue to appoint external professional advisers, including auditors, legal or other advisers to render professional advice so as to comply with all the relevant laws and regulations applicable to us.

BACKGROUND OF THE CONTROLLING SHAREHOLDER

The Controlling Shareholder is a state-owned enterprise established on October 13, 2004 and is wholly-owned by Kunming SASAC. As at the Latest Practicable Date, it had a registered capital of RMB5 billion and owned 95.82% of our issued share capital. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, the Controlling Shareholder will hold approximately 64.20% of our issued share capital.

The Controlling Shareholder is engaged in the investment, construction, operation and management of projects as determined by the Kunming People's Government, the investment and construction of wastewater treatment plants in the Yunnan Province, the PRC, and the investment, operation and management of assets relating to the infrastructure, technology and other sectors. The Controlling Shareholder has confirmed that, save for its interests in certain businesses (the "**Excluded Businesses**"), it does not have any interest in a business which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules. The Excluded Businesses comprise the Kunming Nos. 9, 10 and 11 Water Purification Plants, Baiyuhe Water Purification Plant, Baiyukou Water Purification Plant, Haikou Water Purification Plant, Luolonghe Rain Water Station (currently renamed as Luolonghe Water Purification Plant), Aziying Wastewater Treatment Plant, Dianyuanzhen Wastewater Treatment Plant, Sayingpan Water Treatment Plant and Yunlong Water Treatment Plant.

DELINEATION OF BUSINESS

Principal Business of Our Group

Our Group is engaged in municipal wastewater treatment and the provision of reclaimed water supply services in Yunnan Province, the PRC, and the provision of integrated water-related services in China's water industry. For further details of our principal business, please see the section headed "Business" in this prospectus.

Potential Competition with the Controlling Shareholder is Limited

The Controlling Shareholder has interests in the Excluded Businesses which may compete with our Company. These consist of wastewater treatment plants which have not yet completed the inspection and acceptance formalities required for entering commercial operations and are at earlier stages of development. As of the Latest Practicable Date, these plants are all at trial operation stage.

The pre-trial and trial operation stages are separate phases of the construction process where the builder of the project is required to further construct and modify the facility in order for the project to qualify for regulatory approvals and enter commercial operation. The management services we provide for the Excluded Businesses include only operational services and do not include construction services.

The Company provided operation and management services for the Excluded Businesses earlier when these plants were at pre-trial operation stage. In the pre-trial operation stage, the focus of our management services is on the testing of the operational functionality of facilities under construction to further adjust and develop the facilities. Management fees for pre-trial operation are determined on a cost basis (i.e. operational expenses), which are included in the project construction budget prepared in accordance with the Provisions on Municipal Projects Design Budget Estimate Making (市政工程設計概算編製辦法, Jian Biao [2011] 1) issued by the Ministry of Housing and Urban-Rural Development. Management fees for pre-trial operation of a specific project is capitalized in the project's property, plant and equipment, which is typically set out in the official reply on relevant project design issued by local branch of NDRC and Housing and Urban-Rural Development Department. The length of pre-trial operation stage is determined by the environmental protection agency of the government, as set out in its official letters for the respective projects. Based on the Company's experience, the typical length of a pre-trial operation is between three to six months.

During the subsequent trial operation stage, the facilities are further tested, and the trial operation service provider is responsible for maintaining the daily operation of the facilities, until the operations qualify for all regulatory approvals. A project is no longer considered at a pre-trial operation stage and enters trial operation stage when the period prescribed by the relevant environmental protection agency has expired. The management fees for trial operation of the Excluded Businesses are calculated based on the actual wastewater treatment volume multiplied by the price per cubic meter, which are determined, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins. Management fees for trial operation are not capitalized in the project's property, plant and equipment.

The Company is not aware of any material breach of PRC laws or regulations by the Excluded Business, and the Controlling Shareholder has confirmed to the Company that there were not any material breach of PRC laws or regulations by the Excluded Businesses, during the Track Record Period and up to the Latest Practicable Date.

Details of these Excluded Businesses are as follows:

	Project Type[1]	Original Estimated Total Investment Amount[2] (approximately RMB million)	Investment Amount Incurred up to December 31, 2016[2] (approximately RMB million)	Designed Capacity (per day)	Current Stage	Location
Kunming No. 9 Water Purification Plant	Operation and Management	646.2	622.6	100,000 m^3	Trial operation	The junction of Changyuan North Road and Kefa Road, Wuhua District, Kunming, Yunnan Province, the PRC,
Kunming No. 10 Water Purification Plant	Operation and Management	747.2	692.9	150,000 m^3	Trial operation	Shihuguan flyover, Guanshang, Guandu District, Kunming, Yunnan Province, the PRC
Kunming No. 11 Water Purification Plant	Operation and Management	567.6	830.0[3]	60,000 m^3	Trial operation	Hongqiao flyover of Guishi East Road, Kunming, Yunnan Province, the PRC
Baiyuhe Water Purification Plant	Operation and Management	207.6	255.9[4]	100,000 m^3	Trial operation	East to Huanhu South Road and north of Baiyuhe, Kunming, Yunnan Province, the PRC
Baiyukou Water Purification Plant	Operation and Management	25.7	39.4[4]	5,000 m^3	Trial operation	Baiyukou, Kunming, Yunnan Province, the PRC
Haikou Water Purification Plant	Operation and Management	74.4	106.6[4]	30,000 m^3	Trial operation	Daying Village, HaiKou Town, Kunming, Yunnan Province, the PRC
Luolonghe Rain Water Station	Operation and Management	133.8	120.1	50,000 m^3	Trial operation	Dounan Village, Dounan Town, Chenggong County, Kunming, Yunnan Province, the PRC
Aziying Water Purification Plant	Operation and Management	14.9	15.4[4]	500 m^3	Trial operation	Aziying Town, Panlong District, Kunming, Yunnan Province, the PRC

	Project Type[1]	Original Estimated Total Investment Amount[2] (approximately RMB million)	Investment Amount Incurred up to December 31, 2016[2] (approximately RMB million)	Designed Capacity (per day)	Current Stage	Location
Dianyuanzhen Water Purification Plant	Operation and Management	13.1	16.1[4]	1,000 m^3	Trial operation	Dianyuanzhen, Panlong District, Kunming, Yunnan Province, the PRC
Sayingpan Water Purification Plant	Operation and Management	21.9	20.4	2,000 m^3	Trial operation	Sayingpan Town, Luquan County, Kunming, Yunnan Province, the PRC
Yunlong Water Purification Plant	Operation and Management	9.7	9.3	1,000 m^3	Trial operation	Yunlong Reservoir, Luquan County, Kunming, Yunnan Province, the PRC

Notes:

(1) The Controlling Shareholder, acting in accordance with the instruction of the government, built each of the projects comprising the Excluded Businesses. Moreover, the Controlling Shareholder's construction of such projects do not fall into any of the typical categorizations of BOO, BOT, or BT, as the Controlling Shareholder does not intend to operate or transfer back such plants after construction.

(2) The Excluded Businesses are all investments made by the Controlling Shareholder, and the estimated and actual amount of the costs are also provided by the Controlling Shareholder. After making due inquiries to the Controlling Shareholder, the original estimated investment amounts and the actual investments amounts incurred up to December 31, 2016 differed because the actual costs for the acquisition and clearance of land, the actual costs for implementing the designed technique to meet the relevant discharge quality standard, the actual costs of construction materials and the actual amounts of construction work, among others, may all differ from their original estimates, and therefore the investment amounts of certain projects in the Excluded Businesses incurred up to December 31, 2016 are higher than the corresponding original estimated total investment amounts.

(3) The reason for the differences between the original estimated total investment amount and the investment amount incurred up to December 31, 2016 for the Kunming No. 11 Water Purification Plant are (i) that the original estimated investment budgets did not include the costs in relation to obtaining the lands for the Kunming No. 11 Water Purification Plant, which was approximately RMB171 million, and (ii) other increased costs due to adjustment of construction plan, especially in relation to the advanced underground integrated equipment.

(4) The differences between the original estimated total investment amount and the investment amount incurred up to December 31, 2016 are mainly caused by increased costs due to adjustment of construction plans.

Reasons for Exclusion

We did not include the Excluded Businesses in our Group because (i) these wastewater treatment plants remain at the trial operation stage and require further investments and funding; (ii) these wastewater plants have not yet commenced commercial operation; (iii) the commercial operation of these wastewater treatment plants remains subject to passing government environmental inspection and obtaining relevant permits, the timing of which is uncertain; (iv) we are not entitled to the guaranteed minimum tariff pursuant to our concession agreement with the Kunming Government as these wastewater treatment plants have not passed government environmental inspection and have not commenced commercial operation; and (v) the Company conducts its wastewater treatment and other water-related businesses on the TOO, BOO, TOT and BOT models. It either acquires facilities that are already in commercial operations, or on selected cases, engages contractors to design and build its own plants from the very beginning. Historically, the Company has not acquired any construction in progress, including the projects that have completed the brick-and-mortar construction and in pre-trial or trial operation stage that has not begun commercial operation. The Company, however, retains the flexibility to acquire assets or businesses in pre-trial or trial stages, if the Company finds them attractive from a strategic, financial or other perspective, whether these assets or businesses are held by the Controlling Shareholder or by a third party. The pre-trial and trial operation stages are part of the construction process where the builder of the project is required to further construct and modify the facility in order for the project to qualify for regulatory approvals and enter commercial operation. In this sense, the Company views the pre-trial and trial operations as different lines of businesses as comparing to its core business of wastewater treatment or water supply services, because the former focuses on the construction and the latter focuses on the operation of the facilities. To exclude plants in the pre-trial and trial stages of business, similar to excluding certain lines of business commonly seen in other industries, allows the Company to focus on its core competitive strengths of managing wastewater treatment related businesses and enhances the Company's efficiency.

Historically, the Controlling Shareholder built all the plants of the Excluded Businesses, and the Company has been providing entrusted operation and management services to those Excluded Businesses. The Controlling Shareholder cannot operate the wastewater treatment plants under Excluded Businesses, because (i) the Company has the exclusive concession right to operate all of the Excluded Businesses which are all located within Kunming City according to the concession agreement the Company entered into with the Kunming Municipal Government, and (ii) the Controlling Shareholder has no operational capability and therefore is not capable to engage in the operational aspects of the water treatment business. The Company's expertise lies in the operation of wastewater treatment related businesses.

In addition to the above reasons, the Company notes that potential competition, if any, between the Excluded Businesses and the Company's businesses, is limited, for reasons set out under the heading "— Extent of Competition with the Excluded Businesses". Further, the Company holds multi-level options to purchase any or all of the Excluded Businesses, at its discretion, at any time when the Company finds that purchasing the Excluded Businesses would best serve our Shareholders' interests. The Company believes that this Excluded Businesses arrangement makes sense from the standpoints of business line delineation, efficiency, commercial operation and capital preservation, and is in the best interest of the Company and its Shareholders as a whole. In view of the above, our Directors are of the view that it is not appropriate to include these wastewater treatment plants in our Group at this stage of their development.

Based on the reasons above, except for the Kunming No. 10 Water Purification Plant, our Directors confirmed that our Group has no intention to acquire other Excluded Businesses in the near future. We are acquiring the Kunming No. 10 Water Purification Plant, because the inlet and outlet water quality monitor system of the Kunming No. 10 Water Purification Plant has obtained the acceptance from Kunming Environmental Protection Bureau and the Kunming No. 10 Water Purification Plant is close to commencement of commercial operation, and the construction is substantially completed. For details regarding the transfer of the Kunming No. 10 Water Purification Plant, please see the section headed "Connected Transactions — Existing One-off Connected Transaction — Asset Transfer Agreement" in this prospectus.

Upon commencement of commercial operation of each of the Excluded Businesses, the Company's Board, including the independent non-executive Directors, will review the status of such Excluded Business based on a variety of factors, including commercial, financial, operational, competition and others. To the extent that the Board is satisfied with its review, the Company will exercise its option in acquiring such Excluded Business in compliance with the Listing Rules. See "— Non-competition Agreement with the Controlling Shareholder — Option upon Commencement of Commercial Operation" for details.

Extent of Competition with the Excluded Businesses

Although the Excluded Businesses are located in the Yunnan Province, the PRC, our Directors are of the view that the potential competition between the Controlling Shareholder and our Group in respect of the Excluded Businesses is limited for the following reasons:

- ***Stage of development of the wastewater treatment plants.*** As the Excluded Businesses owned by the Controlling Shareholder remain at trial operation stage and hence have no or limited actual volume of treated wastewater, the potential competition faced by our Group from these wastewater treatment plants is minimal. In addition, as these wastewater treatment plants have not become commercially operational, these plants could not generate any revenue from providing wastewater treatment services.

- ***Characteristics of wastewater treatment operations.*** Wastewater treatment operations typically provide services within a certain area through an established wastewater collection pipeline network. Wastewater dischargers within the area of a specified wastewater treatment facility do not have the option of choosing another service provider. Accordingly, wastewater treatment facilities have the characteristics of geographical monopoly and it is highly unlikely that there will be more than one service provider within the same geographical location. As a result, in general there is no competition within specific geographical locations between the wastewater treatment plants owned by the Controlling Shareholder and the wastewater treatment plants owned by our Group.

- ***Characteristics of concession contracts.*** The Company holds the concession rights to operate wastewater treatment plants in the areas where the Excluded Businesses are located. Given this arrangement, it is practically difficult, if not impossible, for the Controlling Shareholder to engage another operator to operate and manage the Excluded Businesses. The Controlling Shareholder cannot operate the wastewater treatment plants under Excluded Businesses, because (i) the Company has the exclusive concession right to operate all of the Excluded Businesses which are all located within Kunming City, and (ii) the Controlling Shareholder does not have the expertise to operate or manage water plants.

Pursuant to the Non-competition Agreement (as defined below), we have (i) the right to request the Controlling Shareholder to sell, (ii) the right to acquire at their respective commencement of commercial operation, and (iii) the right of first offer to acquire any or all of the Excluded Businesses, so that the Group will have the flexibility to include such wastewater treatment plants into our Group as and when we deem appropriate.

Further, the Controlling Shareholder has agreed to entrust the management of the Excluded Businesses to our Group so that our Group will (i) collect service fees from the Controlling Shareholder, (ii) have operational control over the same, and (iii) be able to assess when and whether to exercise the rights to acquire these plants. Please see sections headed "Connected Transactions" and "Relationship with the Controlling Shareholder — Non-competition Agreement with the Controlling Shareholder" in this prospectus for further details.

NON-COMPETITION AGREEMENT WITH THE CONTROLLING SHAREHOLDER

Non-competition in the Industry

We have entered into a Non-competition Agreement, pursuant to which the Controlling Shareholder agreed that, (i) except for the Excluded Businesses described above, it will not engage in, participate in or assist others to engage or participate in any business that competes or is likely to compete, directly or indirectly, with our business within the PRC, and will procure its subsidiaries (excluding the Group) not to engage in any business that competes or is likely to compete, directly or indirectly, with our business (the "**Competing Businesses**") in the PRC, and (ii) it will inform us of any new business opportunities of the Competing Businesses, and use their best efforts to procure such opportunities be made available to us.

The Controlling Shareholder has also undertaken in the Non-competition Agreement that during the term of such agreement, it will not, and will procure its subsidiaries not to:

- directly or indirectly engage in or participate in, or assist others to engage in or participate in, any Competing Businesses in any form (including but not limited to investment, mergers and acquisitions, joint operations, joint venture, cooperation agreement, partnership, contractor agreement, lease or purchase of shares of listed or private companies) within the PRC; or

- assist any entity other than our Group to engage in any Competing Businesses within the PRC; or

- engage in any Competing Businesses (directly or indirectly) in any manner.

Pursuant to the Non-competition Agreement, the Controlling Shareholder has further granted us the right to choose to acquire any or all of its interests in the Competing Businesses, to conduct entrusted operation, contracting operation, or to lease the assets or business of the Competing Businesses from the Controlling Shareholder in accordance with PRC laws and the Listing Rules.

The above non-competition undertaking does not apply where the Controlling Shareholder or its subsidiary(ies), through securities investment and/or debt restructuring, hold in aggregate no more than 10% equity interest in a listed company, who engages in Competing Businesses.

New Business Opportunities

Pursuant to the Non-competition Agreement, the Controlling Shareholder has undertaken that, during the term of the Non-competition Agreement, if the Controlling Shareholder or its subsidiaries (for the purpose of the Non-competition Agreement, excluding our Group) becomes aware of any new business opportunities which are or are likely to be Competing Businesses (the "**New Business Opportunities**"), the Controlling Shareholder shall immediately notify our Company in writing and provide all relevant information of the New Business Opportunities (the "**Offer Notice**") and use their best efforts to procure the New Business Opportunities be made available to our Company or our subsidiaries on fair and reasonable terms and conditions. Our Company shall promptly (in any case no later than 90 Business Days from receipt of the Offer Notice) notify the Controlling Shareholder in the event that our Company decides not to take up the New Business Opportunities and specify whether our Company objects to the Controlling Shareholder taking up such New Business Opportunities. The Controlling Shareholder may then take up such New Business Opportunities. If the Controlling Shareholder takes up such New Business Opportunities, the Company has the right to choose to acquire any or all of its interests in the Competing Businesses, or choose to conduct entrusted operation, contracting operation, or lease the assets or business of the Competing Businesses from the Controlling Shareholder in accordance with PRC laws.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up the New Business Opportunities. Any Directors who have an interest shall abstain from voting. In assessing whether or not to exercise the right to acquire the New Business Opportunities, our Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our Group's business and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of our Shareholders and our Group as a whole.

Right of First Offer

Pursuant to the Non-competition Agreement, the Controlling Shareholder has undertaken that, during the term of the Non-competition Agreement, if the Controlling Shareholder intends to transfer, sell, lease, license or otherwise dispose of any of the Competing Businesses, including the Excluded Businesses, to any third parties, the Controlling Shareholder shall immediately notify our Company in writing of its intention (the "**Selling Notice**") and procure all necessary information to facilitate an investment decision be made available to our Company.

Our Board (based on the opinion of our independent non-executive Directors) will decide whether or not to acquire such Competing Businesses. Our Company will notify the Controlling Shareholder in writing within 90 Business Days from the date of the Selling Notice whether we wish to acquire the relevant Competing Businesses.

Before we provide our written reply within the requisite timeframe, the Controlling Shareholder shall not transfer, sell, lease, license or otherwise dispose of the relevant Competing Businesses to any third party. If we decide not to or fail to reply within the requisite timeframe, the Controlling Shareholder may transfer, sell, lend or license the relevant Competing Businesses to any third party on terms no more favorable than those stated in the Selling Notice.

If we decide not to accept the terms and conditions stated in the Selling Notice, we are entitled to propose our terms to the Controlling Shareholder. If the Controlling Shareholder does not accept the terms we proposed, the Controlling Shareholder can proceed to transfer, sell, lease, license or otherwise dispose of the relevant Competing Businesses to any third party on terms no more favorable than those stated in the Selling Notice.

Right to Acquire the Competing Businesses

The Controlling Shareholder has granted us a right, which is exercisable during the term of the Non-competition Agreement, to acquire any or all of its interests in the Competing Businesses, including the Excluded Businesses. We may exercise such right to acquire any Competing Businesses, including the Excluded Businesses, from the Controlling Shareholder at any time whether or not the Controlling Shareholder intends to dispose of its interests in such part or all of the Competing Businesses. The consideration payable for the acquisition of such Competing Businesses will be determined with reference to the appraised value by a qualified independent third-party valuer, in accordance with PRC regulations (including the Administrative Measures for the Transfer of State-owned Assets of Enterprises (企業國有資產交易監督管理辦法) issued by PRC Ministry of Finance and SASAC), fair market terms, including terms in existing projects and in accordance with the Listing Rules.

The Board, including the independent non-executive Directors, will be responsible for reviewing, considering and deciding whether or not to exercise the right to acquire any or all of the Excluded Businesses, based on the status and performance of such Excluded Businesses. Any Director who has interests in or related to the acquisition, including those who hold position in the Controlling Shareholders, will abstain from voting.

Option upon Commencement of Commercial Operation

The Controlling Shareholder has undertaken that, during the term of the Non-competition Agreement, if any of its Competing Businesses commence commercial operation (the "**Commercial Operation Business**"), the Controlling Shareholder shall immediately notify our Company and provide all relevant information of the Commercial Operation Business (the "**Commencement of Commercial Operation Notice**") and use their best efforts to procure the Commercial Operation Business be made available to our Company or our subsidiaries on fair and reasonable terms and conditions. Our Company and the Controlling Shareholder will negotiate such terms and conditions on arm's length basis and the consideration will be determined with reference to the appraised value by an independent valuer. The Board, including the independent non-executive Directors, will be responsible for reviewing such terms and conditions, and will consider and decide whether such terms and conditions are fair and reasonable, including with reference to terms in existing contracts, and whether to acquire the Commercial Operation Business on such terms and conditions. In the event that our Company decides not to acquire the Commercial Operation Business, our Company shall notify the Controlling Shareholder no later than 90 Business Days from receipt of the Commencement of Commercial Operation Notice. The Controlling Shareholder can then deal with the Commercial Operation Business on its own discretion. Our Company has the right to choose to acquire any or all of its interests in the Competing Businesses, or choose to conduct entrusted operation, contracting operation, or lease the assets or business of the Competing Businesses from the Controlling Shareholder in accordance with PRC laws.

Further Undertakings

Pursuant to the Non-competition Agreement, the Controlling Shareholder has further irrevocably represented, undertaken and warranted, among other things, that:

(1) it shall not disclose any confidential or trade-sensitive information of the Group to any person or use any of such information for advancing their business without our written consent;

(2) it shall not solicit any customer of the Group (whether past, present or future) to enter into any sales contract or concession agreement in contravention of the Non-competition Agreement;

(3) it shall conduct conflict checks with each new customer before entering into any agreement in order to ensure each of them will not enter into any sales contract or concession agreement with any customer of the Group (whether past, present or future) in contravention of the Non-competition Agreement;

(4) it shall, upon request of our independent non-executive Directors, provide our independent non-executive Directors with all information necessary for their annual review or any review made in accordance with the request of relevant regulatory authorities of compliance with and implementation of the Non-competition Agreement by the Controlling Shareholder and its subsidiaries;

(5) it shall timely keep us informed and shall procure its subsidiaries to provide all information required by our Board to assist them in their consideration of any New Business Opportunities;

(6) it agrees that our Company will disclose the decisions made by our independent non-executive Directors on the compliance with and implementation of the Non-competition Agreement in our annual reports, interim reports, announcements or circulars;

(7) it shall provide a declaration annually on compliance with the terms of the Non-competition Agreement to our Company to facilitate our making of relevant disclosure in our annual reports, interim reports, announcements or circulars; and

(8) it shall indemnify our Group against any actual loss, damages or expenses resulting from any breach of the non-competition undertaking by the Controlling Shareholder or its subsidiaries.

Termination

The Non-competition Agreement shall continue to be effective until the earlier of the occurrence of the following situations:

(1) the date on which the Controlling Shareholder and its subsidiaries, in aggregate, directly or indirectly hold less than 30% of the entire issued share capital of our Company, and ceases to have control over the Board of Directors, resulting the Controlling Shareholder ceasing to be a "controlling shareholder" as defined under the Listing Rules; or

(2) the date on which the H Shares cease to be listed on the Hong Kong Stock Exchange, except where trading in the H Shares is temporarily suspended for any reason.

CORPORATE GOVERNANCE MEASURES

We will adopt the following corporate governance measures to ensure that the undertakings under the Non-competition Agreement are observed:

(1) our independent non-executive Directors will report and conduct an annual review, and we will disclose in our annual reports or announcements, the findings, decisions and the basis of any decisions made by our independent non-executive Directors on the compliance by the Controlling Shareholder with and implementation of the Non-competition Agreement, as well as the reason why any New Business Opportunities, if any, have not been taken up; and

(2) our Directors are of the view that our independent non-executive Directors have sufficient experience in assessing whether or not to pursue any New Business Opportunities. If our independent non-executive Directors consider that approvals from our independent Shareholders are required for such opportunity under the Listing Rules, they may appoint an independent financial adviser or other professionals, at our expense, to advise on the suitability of exercising our rights under the Non-competition Agreement.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

Having considered the following factors, we believe that following the Global Offering, we can conduct our business independently from our Controlling Shareholder and its associates.

Operational Independence

Except as disclosed in the section headed "Business" in this prospectus, we own or have the right to use all the operational facilities and technologies relating to our business and hold all relevant qualifications, licences and permits. We currently conduct our principal business independently and we have the ability to formulate and implement operational decisions independently. We also communicate with and serve our clients independently. We have sufficient capital, facilities and employees to operate our business independently. Except as set out in the section headed "— Independence from the Controlling Shareholder — Management Independence" in this prospectus, our other employees are independent from, and none of them are remunerated by, our Controlling Shareholder and its associates.

We have our own organizational structure and departments with specific authorities independent from our Controlling Shareholder. We also maintain a comprehensive set of internal control procedures for promoting efficient business operation. With reference to relevant laws, regulations and rules, we develop sound corporate governance practice and have adopted our rules of procedure for general meeting, rules of procedure for board meeting, rules of procedure for supervisory committee meeting and connected transactions rules.

Save as disclosed in this prospectus, there were no significant business transactions between our Group and our Controlling Shareholder or its associates during the Track Record Period.

Financial Independence

Our financial department is independent from our Controlling Shareholder, and composed of independent financial staff. Its responsibilities include, among others, financial control, accounting, financial reporting, group credit, internal control. None of our financial staff works for our Controlling Shareholder and/or its associates. We are capable of making financial decisions independently, and our Controlling Shareholder will not interfere with our use of funds. We have established an independent audit system, a standardized financial and accounting system and a comprehensive financial management system. In addition, we manage our bank accounts independently, and do not share any bank accounts with our Controlling Shareholder and/or its associates. We conduct our tax registration and pay taxes independently according to the PRC tax laws and regulations, rather than on a combined basis with our Controlling Shareholder or any of its associates.

During the Track Record Period, we provided operation and management services to the Controlling Shareholder. For further details of these services, please see the section headed "Connected Transactions" in this prospectus. Revenue from such services provided to our Controlling Shareholder accounted for 3.3%, 8.0% and 8.0% of our total revenues for the years ended December 31, 2014, 2015 and 2016, respectively.

As at the Latest Practicable Date, we had no outstanding loans, financial assistance or financing in any other forms from our Controlling Shareholder or its associates; and had not provided any outstanding securities, loans or any other forms of financial assistance to our Controlling Shareholder or its associates. Therefore, although as of December 31, 2016 we have outstanding payables of (i) approximately RMB13.7 million (subject to potential downward adjustments to be agreed) for acquisition of property, plant and equipment, which will be settled before the Listing, and (ii) approximately RMB27.2 million (subject to potential downward adjustments to be agreed) for acquisition of land use rights of the Kunyang, Gucheng and Yunihe Water Purification Plants, of which 60% is expected to be settled before the Listing and 40% is expected to be settled after the Listing in the third quarter of 2017, in accordance with the payment schedule as set out under the relevant agreements. Our Directors believe that our financial operation is independent from our Controlling Shareholder.

Management Independence

The Board is comprised of seven Directors. Our executive Director holds a directorship position with the Controlling Shareholder and one non-executive Director holds directorship positions with the Controlling Shareholder and its subsidiary. The other Director and three independent non-executive Directors do not hold any directorship positions in our Controlling Shareholder or its subsidiaries.

The following table sets forth the positions held by our Directors and Supervisors in our Controlling Shareholder and its subsidiaries:

Name of Director/Supervisor	Position held in our Company	Position held in our Controlling Shareholder and its subsidiaries
Ms. Guo Yumei	Chairperson; Executive Director and General Manager *(Chairperson of the Strategy and Investment Decision Committee)*	Vice chairperson of the board of directors of the Controlling Shareholder
Ms. Song Hong	Non-executive Director	Director and chief financial officer of the Controlling Shareholder; and director of Kunming Diantou Bishuiyuan Water Technology Co., Ltd.* (昆明滇投碧水源水務科技有限公司)
Mr. Na Zhiqiang	Chairman of the Board of Supervisors and Employee Representative Supervisor	Supervisor of Kunming Dianchi Property Development Company Limited* (昆明滇池置業有限責任公司)

Except for the above-listed individuals, none of the Directors, Supervisors and senior management of our Company hold any directorship or senior management position in our Controlling Shareholder, its subsidiaries, or its associates.

We believe our Directors, Supervisors and senior management can independently perform their duties in our Company and we can operate independently from our Controlling Shareholder due to the following reasons:

(a) the decision-making mechanism of the Board as specified in our Articles of Association has set out relevant provisions to avoid conflicts of interest, including but not limited to: (i) disclosure of conflicting interest to the Board; (ii) if the relevant proposal causes conflicts of interest between our Group and our Controlling Shareholder, the Director(s) associated with our Controlling Shareholder should abstain from voting and should not attend or be included in the quorum of the meeting of the Board; (iii) when connected transaction(s) are considered, independent non-executive Directors of our Company shall give their independent opinions to the Board on the relevant connected transaction(s) pursuant to the Listing Rules;

(b) we have appointed three independent non-executive Directors (accounting for more than one-third of the Board) to balance the numbers of interested Director(s) and independent non-executive Directors for the protection of the interests of the Group and the Shareholders as a whole;

(c) save as disclosed above, none of our Directors and members of the senior management holds any directorship and senior management positions in our Controlling Shareholder or its associates. Our management team is different from our Controlling Shareholder, and there are sufficient non-overlapping Directors who are independent from our Controlling Shareholder and possess relevant experience to ensure that the Board is able to perform its functions properly; and

(d) our Directors are well aware of their fiduciary duties which, among other things, require them to act in the best interests of our Group and our Shareholders as a whole.

To conclude, the Directors believe that our management team is independent from our Controlling Shareholder.

OVERVIEW

We have entered into certain transactions with our Controlling Shareholder. Such transactions will constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

CONNECTED PERSON — OUR CONTROLLING SHAREHOLDER

Immediately following completion of the Global Offering, the Controlling Shareholder will directly own approximately 64.20% of our total issued Shares (assuming the Over-allotment Option is not exercised) or approximately 61.03% of our total issued Shares (assuming the Over-allotment Option is exercised in full). Our Controlling Shareholder will remain as our substantial shareholder and therefore be our connected person as defined under Rule 14A.07(1) of the Listing Rules.

The principal businesses of the Controlling Shareholder include the investment, construction, operation and management of projects as determined by the Kunming People's Government, investment and construction of wastewater treatment plants in the Yunnan Province, the PRC, and the investment, operation and management of assets relating to the infrastructure, technology and other sectors.

EXISTING ONE-OFF CONNECTED TRANSACTION

The following transaction was entered into between the Company and the Controlling Shareholder prior to, but will only be completed after the Global Offering.

Asset Transfer Agreement

On April 13, 2015, we entered into an asset transfer agreement with the Controlling Shareholder (the "**Asset Transfer Agreement**"), amended and supplemented by a first supplemental agreement entered into on December 30, 2015, further amended and supplemented by a second supplemental agreement entered into on July 27, 2016, pursuant to which the Controlling Shareholder agreed to transfer its interests in the Kunming No. 10 Water Purification Plant (the "**Target Assets**") to our Company.

Consideration: The consideration for the transfer of the Target Assets is RMB750.17 million, subject to a final determination on the basis of the appraised value of the Target Assets as at the last day of the month when the Target Assets receive confirmation of construction completion, pass inspection and receive acceptance from the relevant authorities, as assessed by a qualified valuer and to be filed with Kunming SASAC.

Payment and Closing: The Controlling Shareholder must immediately transfer the Target Assets to the Company once (i) the Target Assets pass the governmental inspection and successfully obtains the inspection acceptance form by June 30, 2017 and (ii) the internal rate of return on the Target Asset reaches or exceeds 8.0% as agreed by the Company and the Controlling Shareholder. The consideration will be paid by the Company to the Controlling Shareholder in two instalments:

(i) The first instalment of RMB450 million was paid by the Company to the Controlling Shareholder in December 2015; and

(ii) The second instalment, being the remainder of the consideration, must be paid by the Company within three months after the transfer of the Target Assets, less the Company's cost of capital for the first instalment of RMB450 million chargeable at a rate of 6.53% per annum and accruing from July 1, 2016 to the date of transfer of the Target Assets. The Company shall reimburse the Controlling Shareholder for its cost of capital at a rate of 6.53% per annum should it be late with the payment of the second instalment of the consideration.

Long stop date: If (i) the Controlling Shareholder fails to satisfy the conditions to closing by June 30, 2017, the Company has the right to terminate the acquisition of the Target Assets, and the Controlling Shareholder must refund the first instalment to the Company, and further compensate the Company for its cost of capital at a rate of 6.53% per annum chargeable on the RMB450 million and accruing from July 1, 2016 to the date when the first installment is fully refunded to the Company.

Our discretionary termination option: The Company may terminate the acquisition of the Target Assets at any time, and the Controlling Shareholder must refund the first instalment to the Company within one month of our termination notice.

Reasons for and benefits of the asset transfer transaction: We are acquiring the Kunming No. 10 Water Purification Plant, because the inlet and outlet water quality monitor system of the Kunming No. 10 Water Purification Plant has obtained the acceptance from the Kunming Environmental Protection Bureau and the plant is close to commencement of commercial operation, and the construction is substantially completed.

The Company paid the first instalment payment of RMB450 million to the Controlling Shareholder in December 2015. As at the Latest Practicable Date, the Company has not made the second instalment payment under the Asset Transfer Agreement (as amended and supplemented), and the transaction has not been completed, primarily because the Kunming No. 10 Water Purification Plant has not yet passed the governmental inspection and obtained the filing form of completion acceptance. The Company anticipates the transfer of Kunming No. 10 Water Purification Plant to be completed by June 30, 2017. This anticipated timetable, however, is tentative, as the completion is subject to passing governmental inspection and obtaining inspection acceptance form, both of which are beyond our control.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT, CIRCULAR AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Entrusted Operation and Management Framework Agreement

During the Track Record Period, the Company has entered into certain agreements with the Controlling Shareholder pursuant to which the Company provided certain operation and management services to the Controlling Shareholder in relation to wastewater treatment plants, reclaimed water supply facilities and running water facilities owned by the Controlling Shareholder. Such management and operation service, depending on the development stage of the project, typically includes operating, testing and adjusting the equipment and facilities, arranging operating personnel and experts to maintain the daily operation of such plants and ensure the effluent quality meets the relevant discharge standard, setting up management policies and operation guidelines, chemicals purchase, and sludge transportation and disposal. The Company does not provide construction service to the Controlling Shareholder. Please see the section headed "Relationship with the Controlling Shareholder" in this prospectus for further details. It is expected that such transactions will continue after the Listing.

To regulate the terms and conditions under which our Company will provide such operation and management services to the Controlling Shareholder after Listing, our Company entered into an entrusted operation and management framework agreement on April 25, 2016 with the Controlling Shareholder (the "**Entrusted Operation and Management Framework Agreement**"), for the period from April 25, 2016 to December 31, 2018, as may be amended from time to time. The Entrusted Operation and Management Framework Agreement may, upon mutual written consent between the parties, be extended for an additional term of three years, provided that such renewal is in compliance with relevant laws and regulations, and the Listing Rules.

We provide our entrusted operation and management services in relation to the wastewater treatment plants in two main stages, which are prior to the wastewater treatment plant completing inspection and acceptance formalities and entering commercial operations, being: (i) the pre-trial operation stage; and (ii) the trial operation stage. If, after the trial operation stage, the Company chooses not to acquire such Excluded Business, the Company will continue to provide entrusted operation and management services to the Controlling Shareholder.

The Controlling Shareholder and our Company may enter into separate individual service agreement(s) and set out specific terms for each transaction to regulate the transactions contemplated under the Entrusted Operation and Management Framework Agreement. Such individual service agreements shall be in accordance with the terms under the Entrusted Operation and Management Framework Agreement, which shall set out the specific terms for each transaction, including the relevant facility, the services to be provided and the service fees to be paid. The service fee to be paid under each individual service agreement will be determined on a case-by-case basis based on the following pricing policy:

1. the fees as prescribed by the PRC government, if any;

2. where there are no such prescribed fees, such price as may be more favorable to the Company than the then prevailing market price; and

3. where it is not practical to refer to the market price, the price shall be based on arm's length negotiations on a cost plus basis, allowing for reasonable profits on the costs incurred, including electricity cost, chemicals cost, sludge transportation and processing cost, overhead expense, and equipment maintenance expense. We will charge a service fee that represents a 10% margin over the costs that will be incurred in providing the operation and management services. The 10% margin over such costs was arrived at after referencing similar transaction between other listed PRC companies and their parents in the utility and power industry.

Under the Entrusted Operation and Management Framework Agreement, we shall have priority to be chosen as the provider of operation and management services by the Controlling Shareholder provided that the terms of service and service fee offered by us are the same as or lower than that offered by third party(ies). The Controlling Shareholder may engage third party(ies) for the provision of operation and management services only if we fail to satisfy the needs of the Controlling Shareholder, or if the terms of service and service fee offered by such third party service provider are more favorable than that offered by us.

Individual Service Agreements

As at the Latest Practicable Date, we have entered into the following individual service agreements (collectively, the "**Individual Service Agreements**", and each an "**Individual Service Agreement**") in relation to each of the treatment plants constituting the Excluded Business with the Controlling Shareholder, which are governed by the terms of the Entrusted Operation and Management Framework Agreement. The management fees under each Individual Service Agreements are calculated based on the actual wastewater treatment volume multiplied by the price per cubic meter, which are determined, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins, depending on the historical performance of the relevant plant(s), geographical location of, and the human and technical resources allocated to such plant(s). These Individual Service Agreements are listed as below:

1. The Kunming No. 9 Water Purification Plant Entrusted Operation Management Agreement

2. The Kunming No. 10 Water Purification Plant Entrusted Operation Management Agreement

3. The Kunming No. 11 Water Purification Plant Entrusted Operation Management Agreement

4. The Baiyuhe Water Purification Plant Entrusted Operation Management Agreement

5. The Baiyukou Water Purification Plant Entrusted Operation Management Agreement

6. The Haikou Water Purification Plant Entrusted Operation Management Agreement

7. The Luolonghe Rain Water Station Entrusted Operation Management Agreement

8. The Aziying Water Purification Plant Entrusted Operation Management Agreement

9. The Dianyuanzhen Water Purification Plant Entrusted Operation Management Agreement

10. The Sayingpan Water Purification Plant Entrusted Operation Management Agreement

11. The Yunlong Water Purification Plant Entrusted Operation Management Agreement

Historical Figures and Annual Caps

The historical figures for transactions in respect of the provision of operation and management services under the Individual Service Agreements by our Group to the Controlling Shareholder for the years ended December 31, 2014 and 2015 and 2016 are set out in the table below:

	For the year ended December 31,		
	2014	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)
Historical transaction amounts	24,468	66,156	73,439

We have recorded increases in the historical transaction amounts (after tax) in relation to the provision of operation and management services by our Group to the Controlling Shareholder throughout the years ended December 31, 2014, 2015 and 2016 primarily due to (i) an increase in the number of contracts we have entered into for our operation and management services and (ii) the transition of various wastewater treatment plants from the pre-trial operation stage into the trial operation stage, when we can charge higher service fees and earn higher margins.

Our Directors have estimated that the annual caps for the transactions under the Entrusted Operation and Management Framework Agreement, which include all costs and disbursements payable by us in relation to to the operation and management of the various wastewater treatment plants, as well as the service fees we may charge pursuant to the Entrusted Operation and Management Framework Agreement, for each of the years ending December 31, 2017, 2018 and 2019 would be as follows:

	For the year ending December 31,		
	2017	2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)
Service fees and reimbursable costs (after tax) to be paid by the Controlling Shareholder to the Company	115,800	130,000	140,000

For the purposes of determining the proposed annual caps for the transactions under the Entrusted Operation and Management Framework Agreement for each of the years ending December 31, 2017, 2018 and 2019, our Directors have considered (i) the historical transaction amounts incurred as set out above, (ii) the costs borne by the Controlling Shareholder during the Track Record Period, (iii) the projected development progress (i.e. at the pre-trial operation stage or after pre-trial operation stage) of each of the wastewater treatment plants constituting the Excluded Business, as the management fees to be paid to our Group for the pre-trial operation are expected to be determined on a cost basis, and after the pre-trial operation stage the management fees are expected to be calculated, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins, higher than the management fees for the pre-trial stage, (iv) the number of Individual Service Agreements, (v) the estimated demand for operation and management services, and (vi) the historical market conditions and the recent economic outlook of the PRC for the three years ended December 31, 2016.

The annual cap for the year ending December 31, 2017 is greater than the historical transaction amounts incurred for the year ended December 31, 2016 for the following reasons:

1. the operation and management services provided by the Company to the Controlling Shareholder for the (i) Luolonghe Rain Water Station, (ii) Aziying Wastewater Treatment Plant, (iii) Dianyuanzhen Wastewater Treatment Plant, (iv) Sayingpan Wastewater Treatment Plant, and (v) Yunlong Wastewater Treatment Plant commenced during the year of 2016 and the service fees were not for the entire but rather a part of, the year of 2016, whose service fees in aggregate are expected to increase by RMB13.3 million from 2016 to 2017;

2. expected further ramp up and higher utilization rate of (i) Kunming No. 9 Water Purification Plant, (ii) Kunming No. 10 Water Purification Plant, and (iii) Kunming No. 11 Water Purification Plant, whose service fees in aggregate are expected to increase by RMB17.3 million from 2016 to 2017; and

3. the Controlling Shareholder directly paid various variable costs, consisting mainly of utility costs including electricity fees in 2016. Such costs will all be payable by us in 2017 and shall be reimbursed by the Controlling Shareholder, which have been included in the estimated service fees for 2017.

The increase in the annual cap for the two years ending December 31, 2018 and 2019 is primarily attributed to the expected further ramp up and higher utilization rate of (i) Kunming No. 9 Water Purification Plant, (ii) Kunming No. 10 Water Purification Plant, (iii) Kunming No. 11 Water Purification Plant and (iv) Baiyuhe Water Purification Plant, whose service fees in aggregate are expected to increase by RMB10.9 million from 2017 to 2018, and by RMB9.4 million from 2018 to 2019.

Reasons for entering into the Entrusted Operation and Management Framework Agreement and benefit to the Company

Our Controlling Shareholder retains certain wastewater treatment plants which are not in commercial operation. For details, please see the section headed "Relationship with the Controlling Shareholder — Delineation of Business" in this prospectus. Pursuant to our concession agreement with the Kunming Government, we have an exclusive right to operate wastewater treatment facilities in Kunming. As a result, the Controlling Shareholder must rely on or "entrust" us to operate and manage the wastewater treatment facilities in Kunming.

The Company considers that providing entrusted operation services enables us to maximize the interests of the Company generated from those water plants through the collecting of service fees from the Controlling Shareholder by utilizing our resources and expertise to operate these wastewater treatment facilities.

In addition, for these wastewater plants we are entrusted to operate, we have (i) the right to request the Controlling Shareholder to sell, (ii) the right to acquire at their respective commencement of commercial operation, and (iii) the right of first offer to acquire any or all of them. Entering into the Entrusted Operation and Management Framework Agreement and the Individual Service Agreements allows our Group to have operational control over these assets, to track the status and performance of these wastewater treatment plants, and places us in a better position to assess whether and when to exercise our rights to acquire these assets pursuant to the Non-competition Agreement entered into by the Controlling Shareholder and our Company. Please see the section headed "Relationship with the Controlling Shareholder — Non-competition Agreement with the Controlling Shareholder" in this prospectus for further details.

Implications under the Listing Rules

The transactions under the Entrusted Operation and Management Framework Agreement described in the section headed "— Non-exempt Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement, Circular and Independent Shareholders' Approval Requirements" will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Pursuant to the Listing Rules, the relevant percentage ratios for the above continuing connected transactions are more than 5% on an annual basis. Accordingly, the continuing connected transactions contemplated under the Entrusted Operation and Management Framework

Agreement are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements under the Listing Rules in respect of the transactions contemplated under the Entrusted Operation and Management Framework Agreement.

Nonetheless, we are still subject to the reporting requirements pursuant to Rules 14A.49 and 14A.71 of the Listing Rules and shall disclose details of the continuing connected transactions under the Entrusted Operation and Management Framework Agreement in the annual reports for the three financial years ending December 31, 2019. Upon expiry of the waiver on December 31, 2019, we will re-comply with the applicable requirements of Chapter 14A of the Listing Rules.

Confirmation from the Directors

The Directors (including the independent non-executive Directors) consider that (i) our continuing connected transactions described in the sub-section "— Non-exempt Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement, Circular and Independent Shareholders' Approval Requirements" in this prospectus have been entered into in the ordinary and usual course of business of our Company, on normal commercial terms, and that the terms are fair and reasonable and in the interests of the shareholders of the Company as a whole and (ii) the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable, taking into consideration the basis and assumptions in determining the annual caps for the non-exempt continuing connected transactions summarized above.

Confirmation from the Sole Sponsor

The Sole Sponsor confirms that our continuing connected transactions under the Entrusted Operation and Management Framework Agreement described in the sub-section "— Non-exempt Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement, Circular and Independent Shareholders' Approval Requirements" in this prospectus have been and will be entered into in the ordinary and usual course of our business and on normal commercial terms that are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and that the proposed annual caps of such continuing connected transactions above are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

OVERVIEW

Our Board of Directors currently consists of seven Directors, of whom two are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The Directors have been appointed by our Shareholders for a term of three years, after which they may be re-elected.

Our Board of Supervisors currently consists of three Supervisors, of whom two are employee representative Supervisors. The remaining Supervisor has been appointed by our Shareholders and the current employee representative Supervisors have been appointed by the representatives of our labor union. The Supervisors are appointed for a term of three years after which they may be re-elected.

DIRECTORS AND SUPERVISORS

The following tables set out information regarding our Directors and Supervisors. Each of the Directors and the Supervisors satisfies the qualification requirements under relevant PRC laws and regulations for his or her positions.

Directors

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Ms. Guo Yumei (郭玉梅)	49	Chairperson; Executive Director and General Manager *(Chairperson of the strategy and investment decision committee)*	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson in June 23, 2016	July 1990[1]	None
Mr. Luo Yun (羅雲)	38	Executive Director and Deputy General Manager	Supervise our investment strategies, market expansion, project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director in June 23, 2016	June 2013	None
Mr. Zeng Feng (曾鋒)	52	Non-executive Director	Participates in the development of business strategies and advise on audit and internal control matters	January 19, 2011	January 2011	None

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Ms. Song Hong (宋紅)	53	Non-executive Director	Participates in the development of our business strategies	June 23, 2016	June 2016	None
Mr. Wong Man Chung Francis (黃文宗)	52	Independent Non-executive Director *(Chairman of the audit committee)*	Participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management	June 23, 2016	June 2016	None
Mr. Yin Xiaobing (尹曉冰)	43	Independent Non-executive Director *(Chairman of the nomination committee)*	Participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management	June 23, 2016	June 2016	None
Mr. He Xifeng (何錫鋒)	54	Independent Non-executive Director *(Chairman of the remuneration and appraisal committee)*	Participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management	June 23, 2016	June 2016	None

Note:

(1) Ms. Guo joined the Kunming Municipal Utility Tariff Bureau* (昆明市政公用局排水收費處) in July 1990, which subsequently merged into Kunming City Drainage Co., Ltd., a predecessor of the Group. Please see the section headed "History, Development and Corporate Structure" in this prospectus for details of the history of the Group. Before the establishment of our Company in January 2011, Ms. Guo was responsible for the management of the Company through her positions in the Controlling Shareholder and subsidiaries. Please see the section headed "Directors, Supervisors and Senior Management" in this prospectus for details of her biography.

Supervisors

Our Supervisors are responsible for overseeing our Directors and senior management in discharging their responsibilities, and reviewing financial statements.

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Mr. Na Zhiqiang (那志強)	55	Chairman of the Board of Supervisors; Employee Representative Supervisor	Responsible for leading the daily work of the Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings	January 19, 2011	February 1990[(1)]	None
Mr. Yao Jianhua (姚建華)	58	Employee Representative Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings	January 19, 2011	November 1995[(2)]	None
Mr. Shao Wei (邵偉)	36	Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings	May 7, 2016	May 2016	None

Notes:

(1) Mr. Na joined Kunming No. 1 Water Purification Plant in February 1990.

(2) Mr. Yao joined the management cashier office of Kunming City Drainage Co., Ltd., a predecessor of the Group in November 1995. Please see the section headed "History, Development and Corporate Structure" in this prospectus for details of the history of the Group.

Directors

Executive Directors

Ms. Guo Yumei (郭玉梅), aged 49, joined our Group in July 1990. Ms. Guo was appointed as an executive Director and the general manager of our Company in January 2011 and as the chairperson of the Board in June 23, 2016. She has over 25 years of experience in the wastewater treatment industry, and is responsible for strategic decision making and management of our Company's operations. Ms. Guo is currently the chairperson of the strategy and investment decision committee, and a member of the remuneration and appraisal committee and the nomination committee of our Company.

Ms. Guo joined the Controlling Shareholder in July 2006 and has been the vice chairperson of the board of directors of the Controlling Shareholder since January 2015. Positions which she held at the Controlling Shareholder include manager of its public affairs department, chief operating officer for its public affairs, assistant to general manager and deputy general manager from July 2006 to January 2015. Ms. Guo worked at Kunming Municipal Utility Tariff Bureau* (昆明市政公用局排水收費處) from July 1990 to December 1995. She worked at Kunming City Drainage Co. Ltd.* (昆明市城市排水公司) from December 1995 to January 2002, responsible for the management of drainage, and she was a division chief of its general affairs division from January 2002 to July 2006, during which time she also worked at the Second General Affairs Division of Kunming Municipal Dianchi Administration Bureau* (昆明市滇池管理局綜合二處) from October 2003 to May 2004.

Ms. Guo obtained a bachelor's degree in analytical chemistry from Yunnan University (雲南大學) in Yunnan Province, the PRC in July 1990. Ms. Guo has been recognized as a senior engineer in water supply and drainage since 2015. She was recognized as a "Young and Middle-aged Academic and Technology Leader of Kunming" (昆明市中青年學術和技術帶頭人) by the government of Kunming in 2012, and was recognized as an "Outstanding Woman Leader in Yunnan" (雲南省三八紅旗手) by Women's Union and Human Resources and Social Security Department of Yunnan Province in 2014. Ms. Guo was also named as a "2008-2012 Leader in Municipal Wastewater and Domestic Sewage Treatment Facilities Development in Yunnan Province" (雲南省2008年–2012年城鎮污水生活垃圾處理設施建設先進個人) by the Yunnan provincial government in 2013. She obtained the prize of "Leader in Energy Saving and Emission Reduction during the 11th Five-Year-Plan in Yunnan Province" (雲南省"十一五"期間節能減排工作先進個人) in April 2011. "Kunming Urban Drainage Network Geographic Information System" program leaded by Ms. Guo received the "Third Prize of Yunnan Province Science and Technology Award" (雲南省科學技術科技進步三等獎) by the Yunnan provincial government in 2007.

Mr. Luo Yun (羅雲), aged 38, joined our Group in June 2013 and was appointed as an executive Director of our Company in June 23, 2016. Mr. Luo has been the deputy general manager of our Company since January 2015, responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction. He served as the assistant to general manager from June 2013 to January 2015, responsible for assisting general manager in the management of our Company's operation, development, investment programs and marketing strategies. Mr. Luo is currently a member of the strategy and investment decision committee of our Company.

Mr. Luo served as a director of coordination department at Kunming Dianchi Project Management Company* (昆明滇池項目管理有限公司), a subsidiary of the Controlling Shareholder from June 2008 to June 2009. He also served at Kunming Dianchi Property Development Company Limited* (昆明滇池置業有限責任公司), a subsidiary of the Controlling Shareholder, as the deputy general manager from June 2009 to June 2013. From June 2012 to November 3, 2016, Mr. Luo served as a director of Kunming Dianxing Property Development Co., Ltd.* (昆明滇星房地產開發有限責任公司) and of Kunming Dianlong Property Development Co., Ltd.* (昆明滇龍房地產開發有限責任公司).

Mr. Luo graduated from Yunnan University (雲南大學) in Yunnan Province, the PRC, majoring in engineering management in January 2007, and obtained a master's degree of agricultural extension from Southwest Forestry University (西南林業大學) in Yunnan Province, the PRC in January 2013.

Non-executive Directors

Mr. Zeng Feng (曾鋒), aged 52, joined our Group in January 2011 and was appointed as a non-executive Director of our Company in January 19, 2011. Mr. Zeng participates in the development of our business strategies and advising on audit and internal control matters. He has over 23 years of experience in management. Mr. Zeng is currently a member of the audit committee of our Company. Mr. Zeng serves concurrently as a supervisor of Kunming Urban Resources Development Co., Ltd.* (昆明市城市資源開發股份有限公司), the chairman of the board of directors and the general manager of Kunming DIG, the chairman of the board of directors of Kunming Petrochina Kunlun CNG Co., Ltd.* (昆明中石油昆侖車用天然氣有限公司), and an executive director and the general manager of Kunming Urban Development Co., Ltd.* (昆明城市發展有限責任公司).

From September 1999 to January 2006, Mr. Zeng successively served as the assistant to the director general, the deputy director general of finance sub-bureau and the director of the accounting center of Management Committee of Kunming High-tech Industrial Development Zone* (昆明高新技術產業開發區管委會), responsible for finance and financial accounting. From October 2006 to April 2009, he worked at Management Committee of Kunming Airport Economic Zone* (昆明空港經濟區管委會) where he served as the director general of its finance sub-bureau. From April 2009 to November 2010, Mr. Zeng served as the deputy district head of Guandu District, Kunming* (昆明官渡區).

Mr. Zeng graduated from Yunnan Finance and Trade College (currently Yunnan University of Finance and Economics (雲南財經大學)) in Yunnan Province, the PRC, majoring in accounting in June 1990, and graduated from Department of Finance and Economics, Graduate School of Chinese Academy of Social Science (中國社會科學院) in Beijing, the PRC, majoring in commercial economy in November 1998.

Ms. Song Hong (宋紅), aged 53, joined our Group in June 2016 and was appointed as a non-executive Director of our Company in June 23, 2016. Ms. Song participates in the development of our business strategies. She has over 33 years of experience in finance sector. Ms. Song joined the Controlling Shareholder in September 2008. She served as a director and the chief financial officer of the Controlling Shareholder since June 2012. Ms. Song serves concurrently as a director of Kunming Diantou Bishuiyuan Water Technology Co., Ltd * (昆明滇投碧水源水務科技有限公司).

Ms. Song worked at Kunming Tap Water Group Co., Ltd.* (昆明市自來水集團有限責任公司) from December 1982 to September 2008, and served as the deputy director of finance department from December 2005 to September 2008. Ms. Song served as the director of the financial center of the Controlling Shareholder from September 2008 to September 2012.

Ms. Song studied in Communist Party of China Yunnan Provincial Committee School (中國共產黨雲南省委員會黨校) in Yunnan Province, the PRC, majoring in economic management from September 1997 to December 1999.

Independent Non-executive Directors

Mr. Wong Man Chung Francis (黃文宗), aged 52, joined our Group in June 2016 and was appointed as an independent non-executive Director in June 23, 2016.

Mr. Wong participates in making significant decisions and providing advice on corporate governance, connected transactions and various matters of Directors and senior management. He is currently the chairman of the audit committee of the Company.

Mr. Wong is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and The Society of Chinese Accountants and Auditors, and a Certified Tax Adviser of the Taxation Institute of Hong Kong. He is a Certified Public Accountant (Practicing) and has over 28 years of experience in auditing, taxation, corporate internal control and governance, acquisition and financial advisory, corporate restructuring and liquidation, family trust and wealth management.

Previously, Mr. Wong worked as an assistant manager at KPMG, an international accounting firm, from August 1985 to December 1991 and served as an assistant manager in the compliance department of the HKSCC from January 1992 to October 1993. Thereafter, Mr. Wong practiced as a certified public accountant under his own name and founded Francis Wong C.P.A. Co. Limited, a professional accounting firm. In March 2002, Mr. Wong's practice was merged with those of his existing partners and formed Union Alpha C.P.A. Limited, a professional accounting firm. Mr. Wong currently holds the position of managing director at Union Alpha C.P.A. Limited. Since August 2009, Mr. Wong has been the executive director at Union Alpha CAAP Certified Public Accountants Limited, a professional accounting firm. Since February 2008 and up to present, he has been the founding director and member of Francis M C Wong Charitable Foundation Limited, a charitable institution.

Mr. Wong serves as a director in the following companies:

Serving time	Company name	Position
August 2004 to present	China Oriental Group Company Limited (Stock code: 581), a company listed on the Hong Kong Stock Exchange(1)	Independent non-executive director
August 2004 to present	Wai Kee Holdings Limited (Stock code: 610), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
August 2006 to present	Digital China Holdings Limited (Stock code: 861), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
October 2013 to present	Integrated Waste Solutions Group Holdings Limited (Stock code: 923), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
July 2015 to present	Greenheart Group Limited (Stock code: 94), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
April 2016 to present	GCL-Poly Energy Holdings Limited (Stock code: 3800), a company listed on the Hong Kong Stock Exchange	Independent non-executive director

Mr. Wong obtained a master's degree of management from Jinan University (廣州暨南大學) in Guangdong Province, the PRC, in June 2005.

Note:

(1) According to an announcement published by the Stock Exchange dated July 27, 2016, trading of the shares of China Oriental Group Company Limited ("**China Oriental**") has been suspended since April 29, 2014 due to insufficient public float of China Oriental's shares. The Stock Exchange had commenced procedures to cancel China Oriental's listing on the ground that it had insufficient securities in the hands of the public for a prolonged period, and unless China Oriental remedied the public float issue by January 27, 2017. China Oriental subsequently restored its public float on January 27, 2017 and resumed trading on February 1, 2017.

Mr. Yin Xiaobing (尹曉冰), aged 43, joined our Group in June 2016 and was appointed as an independent non-executive Director in June 23, 2016. Mr. Yin participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management. He is currently the chairman of the nomination committee, and a member of the strategy and investment decision committee, the remuneration and appraisal committee and the audit committee of our Company.

Mr. Yin currently serves as an associate professor of School of Business Administration and Tourism Management at the Yunnan University. He is the head of financial management department, and a postgraduate tutor for master students. Mr. Yin was a visiting scholar of the Sloan School of Management at the Massachusetts Institute of Technology. He is a non-practicing member of Chinese Institute of Certified Public Accountants.

Mr. Yin serves as a director in the following companies listed on the Shenzhen Stock Exchange:

Serving time	Company name	Position
April 2013 to present	Yunnan Yuntou Ecology and Environment Technology Co., Ltd.* (雲南雲投生態環境科技股份有限公司, formerly known as Yunnan Green Land Biotechnology Co., Ltd.* (雲南綠大地生物科技股份有限公司)) (Stock code: 002200)	Independent Non-executive Director
May 2014 to present	Yunnan Aluminum Co., Ltd.* (雲南鋁業股份有限公司) (Stock code: 000807)	Independent Non-executive Director
June 2016 to present	Yunnan Copper Industry Limited* (雲南銅業股份有限公司) (Stock code: 000878)	Independent Non-executive Director

Mr. Yin currently also serves as the general manager at Yunnan Tianshu Yuheng Equity Investment Fund Management Co., Ltd.* (雲南天樞玉衡股權投資基金管理有限公司), a director at Kunming Jiahu Real Estate Co., Ltd.* (昆明佳湖房地產有限公司), the chairman of the board of directors of Kunming Zhongbei Financing Guarantee Company* (昆明中北融資擔保公司), and a director at Yunnan Shennong Agricultural Industry Group Co., Ltd.* (雲南神農農業產業集團股份有限公司) and Yunnan Radio and Television Networks Group Co., Ltd.* (雲南廣電網絡集團有限公司).

Mr. Yin obtained a bachelor's degree in applied mathematics from Yunnan University (雲南大學) in Yunnan Province, the PRC, in June 1997, a master's degree in management from Yunnan University (雲南大學) in July 2000, and a doctorate degree in political economy from Yunnan University (雲南大學) in December 2012.

Mr. He Xifeng (何錫鋒), aged 54, joined our Group in June 2016 and was appointed as an independent non-executive Director in June 23, 2016. Mr. He participates in making significant decisions and advises on corporate governance, connected transactions, and various matters of Directors and senior management. Mr. He is currently the chairman of the remuneration and appraisal committee and a member of the nomination committee of our Company.

Mr. He currently serves as the chief partner and previously served as the legal representative and the head of Yunnan Weizhen Law Office* (雲南唯真律師事務所). Mr. He serves as a legal counsel of several government agencies, public institutions and associations, including the Law Committee of the People's Congress in Yunnan Province* (雲南省人民代表大會法制委員會), Yunnan Legal System Construction Network Center* (雲南法制建設網絡中心) and Yunnan Police Officer School* (雲南警官學校).

Mr. He graduated from Yunnan University (雲南大學) in Yunnan Province, the PRC majoring in law in December 1990 and from Yunnan Normal University (雲南師範大學) with a master's degree of history in Yunnan Province, the PRC, in June 1996.

Supervisors

Mr. Na Zhiqiang (那志強), aged 55, is the chairman of our Board of Supervisors and an employee representative Supervisor, responsible for leading the daily work of our Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Na joined our Group in February 1990. In January 19, 2011, he was appointed as the chairman of our Board of Supervisors and an employee representative Supervisor. Mr. Na has over 25 years' working experience in the wastewater treatment industry.

Mr. Na worked successively as office manager, assistant to plant manager, and the plant manager of Kunming No. 1 Water Purification Plant from February 1990 to December 2007. From January 2008 to June 2009, Mr. Na served as the deputy general manager at Kunming Municipal Wastewater Treatment Co. Ltd., our wholly-owned subsidiary. From June 2009 to June 2011 he served as the manager of general affairs department at the Controlling Shareholder.

Mr. Na graduated from the Communist Party China Yunnan Provincial Committee School (中國共產黨雲南省委員會黨校) in Yunnan Province, the PRC, in December 2004, majoring in economics and management.

Mr. Yao Jianhua (姚建華), aged 58, joined our Group in November 1995 and has been an employee representative Supervisor of our Company since January 19, 2011 in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Yao has over 28 years' working experience in the wastewater treatment industry. Since June 2005, Mr. Yao has been the general manager of Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company. Mr. Yao has also been the legal representative, executive director and general manager at Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company, since June 2005.

Prior to joining our Group, Mr. Yao served successively as the section clerk and deputy section chief of Kunming Municipal Facilities Management Cashier Office* (昆明市市政設施收費管理處) from February 1988 to February 1998, and deputy chief of the Management Cashier Office of Kunming City Drainage Company Limited* (昆明城市排水公司收費管理處) from February 1998 to June 1999.

Mr. Yao graduated from Chinese People's Liberation Army Kunming Army College* (中國人民解放軍昆明陸軍學院) in Yunnan Province, the PRC, majoring in political theory in July 1999.

Mr. Shao Wei (邵偉), aged 36, joined our Group in May 7, 2016 and is a Supervisor of our Company in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Shao works as the accounting manager of planning and financing department of Kunming DIG, responsible for corporate finance and accounting affairs. Mr. Shao has over ten years' working experience in the corporate finance management.

Mr. Shao worked at Yunnan Yatai Electronic Information Technology Co., Ltd.* (雲南亞太電子信息技術有限公司) from March 2004 to March 2009. He worked at the financial department of and served as the deputy director of legal and risk control department of Yunnan Electrical and Mechanical Equipment Corporation* (雲南省機電設備總公司) from May 2010 to August 2011 and May 2012 to November 2015 respectively. He worked at financial department of the Yunnan Yunrui Automobile Sales and Service Co., Ltd.* (雲南雲瑞汽車銷售服務有限公司) from August 2011 to May 2012, responsible for financial management.

Mr. Shao graduated from Kunming University of Science and Technology (昆明理工大學) in Yunnan Province, the PRC, majoring in accounting computerization in July 2010. He received a certificate in accounting (intermediate level) in September 2010.

SENIOR MANAGEMENT

Each member of our senior management satisfies the qualification requirements under the relevant PRC laws and regulations for his or her respective position. The senior management is responsible for the day-to-day management our business. The following table sets forth information regarding our senior management:

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Ms. Guo Yumei (郭玉梅)	49	Chairperson; Executive Director and General Manager *(Chairperson of the strategy and investment decision committee)*	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson in June 23, 2016	July 1990	None
Mr. Mei Yili (梅益立)	55	Deputy General Manager	Responsible for the management of our sludge resource utilization, solid waste disposal and production safety	January 29, 2015	May 1997	None
Mr. Luo Yun (羅雲)	38	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director in June 23, 2016	June 2013	None
Mr. Yang Yang (楊陽)	44	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, capital operation and securities affairs, as well as leading the work of our Company's financial planning department and securities affairs department	January 29, 2015	January 2015	None

Ms. Guo Yumei (郭玉梅) is an executive Director, chairperson of the board, and general manager of our Company. Please see the section headed "— Directors and Supervisors — Directors" in this prospectus for details of her biography.

Mr. Mei Yili (梅益立), aged 55, joined our Group in May 1997 and has been the deputy general manager of our Company since January 29, 2015, responsible for the management of our Company's sludge resource utilization, solid waste disposal and production safety.

From June 2005 to June 2013, Mr. Mei served as the deputy general manager, the general manager, and an executive director of Kunming Wastewater Treatment and Operation Co. Ltd.* (昆明城市污水處理運營有限責任公司). From January 2008 to June 2013, he served as the general manager and executive director of Kunming Wastewater Treatment and Operation Co. Ltd.* (昆明城市污水處理運營有限責任公司). From August 2012 to June 2013, he served as the deputy general manager of the Company. From June 2013 to January 2015, he served as the deputy chief engineer of the Controlling Shareholder.

Mr. Mei obtained a bachelor's degree of engineering majoring in railway cable communication from Department of Telecom and Automatic Control, Lanzhou Tiedao Institute (蘭州鐵道學院) in Gansu Province, the PRC, in January 1982.

Mr. Luo Yun (羅雲) is an executive Director and the deputy general manager of our Company. Please see the section headed "— Directors and Supervisors — Directors" in this prospectus for details of his biography.

Mr. Yang Yang (楊陽), aged 44, joined our Group in January 2015 and has been the chief financial officer of our Company since January 29, 2015, responsible for the management of the Company's finance, capital operation and securities, as well as leading the work of the Company's financial planning department and securities department. Mr. Yang has also been appointed as one of our joint company secretaries and our board secretary in June 2016.

From January 2005 to April 2008, he served as the chief financial officer of Sichuan Province Chengdu Yunnei Power Co., Ltd.* (四川省成都雲內動力有限公司). From May 2008 to May 2012, he served as the chief financial officer of Kunming Yunnei Power Co., Ltd.* (昆明雲內動力股份有限公司). He served as the deputy factory director of Yunnan Gas Turbine Plant* (雲南內燃機廠) from May 2012 to May 2013; the director and the deputy general manager of Yunnan Yuxi City Fuxian Lake Protection and Development Investment Co., Ltd.* (雲南省玉溪市撫仙湖保護開發投資有限責任公司) from May 2013 to January 2015 respectively.

Mr. Yang graduated from Kunming Metallurgy College (昆明冶金高等專科學校) in Yunnan Province, the PRC in June 1991, majoring in corporate management (finance and accounting). He also obtained an executive master of business administration degree from Yunnan University (雲南大學) in Yunnan Province, the PRC, in June 2014.

Except as disclosed above:

(a) none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business;

(b) none of our Directors, Supervisors and senior management members has been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus; and

(c) there is no other information that needs to be brought to the attention to the Shareholders under Rule 13.51(2) of the Hong Kong Listing Rules.

JOINT COMPANY SECRETARIES

Mr. Yang Yang (楊陽) and Mr. Chiu Ming King (趙明璟) are our joint company secretaries.

Mr. Yang Yang (楊陽) is also the chief financial officer of our Company. Please see the section headed "— Senior Management" in this prospectus for details of his biography.

As Mr. Yang does not possess the qualifications as stipulated under Rules 3.28 and 8.17 of the Listing Rules, we have applied for and have been granted a waiver by the Hong Kong Stock Exchange from strict compliance with the aforementioned Listing Rules. See section headed "Waivers from Compliance with the Listing Rules" in this prospectus for details.

Mr. Chiu Ming King (趙明璟) currently serves as a Head of Corporate Services of Vistra Corporate Services (HK) Limited. He has over 10 years of experience in the company secretarial field and provides professional services to various listed companies. He has been an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries ("**HKICS**") since 2003 and became a fellow member of the HKICS since September 2015. He has been a member of the Membership Committee and Professional Services Panel of HKICS.

Mr. Chiu was employed by Acceptor Corporate Services Limited from June 18, 2007 to October 14, 2009 as assistant general manager and general manager of business department successively, responsible for providing assistance to the clients in respect of company secretarial field. Mr. Chiu also served as an associate director in corporate services at TMF Hong Kong Limited from October 2009 to May 2012. He rejoined Vistra Corporate Services (HK) Limited (formerly known as Acceptor Corporate Services Limited) on June 1, 2012 and has served as associate director, director and head of corporate services successively, responsible for providing a full range of company secretarial services to the clients. Mr. Chiu was a representative of HKICS at the Young Coalition of Professional Group of the Hong Kong Coalition of Professional Services from 2013 to December 2014.

Mr. Chiu obtained a bachelor of arts from University of Toronto in Toronto, Canada, in June 1999 and received a master of arts in professional accounting and information systems from City University of Hong Kong, in Hong Kong, in November 2003.

CORPORATE GOVERNANCE CODE

Code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Being aware of the said deviation from code provision A.2.1, but in view of the development of the Group and Ms. Guo's extensive experience in the industry and long history with our Group, the Board believes that vesting the roles of both chairperson of the Board and general manager onto Ms. Guo can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board, which is comprised of three independent non-executive Directors and two non-executive Directors, the interests of the Shareholders of the Company will be adequately and fairly represented.

BOARD OF DIRECTORS COMMITTEES

Our Board of Directors delegates certain responsibilities to various committees. In accordance with relevant PRC laws, regulations, our Articles of Association and the certain rules and regulations, we have formed four board committees, namely the audit committee, the remuneration and appraisal committee, the nomination committee, and the strategy and investment decision committee.

Audit Committee

Our Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our audit committee consists of three members, namely Mr. Wong Man Chung Francis (黃文宗), Mr. Zeng Feng (曾鋒) and Mr. Yin Xiaobing (尹曉冰). Mr. Wong Man Chung Francis (黃文宗) is the chairman of the audit committee.

The principal responsibilities of the audit committee are to review and supervise the Company's financial reporting process, financial control, internal control and risk management systems, to supervise the Company's internal audit system, to oversee the audit process and to recommend the engagement or replacement of external auditors. The audit committee is also responsible for communications between the internal and the external auditors and performing other duties and responsibilities as assigned by the Board.

Remuneration and Appraisal Committee

Our Company has established a remuneration and appraisal committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our remuneration and appraisal committee consists of three members, namely Mr. He Xifeng (何錫鋒), Mr. Yin Xiaobing (尹曉冰) and Ms. Guo Yumei (郭玉梅). Mr. He Xifeng (何錫鋒) is the chairman of the remuneration and appraisal committee.

The principal responsibilities of the remuneration and appraisal committee are to establish and review the policy and structure of the remuneration for the Directors and senior management, to establish the performance evaluation standard, procedure and system, to annually evaluate the performance of the Directors and senior management, to make corresponding recommendations to the Board, and to perform other duties and responsibilities as assigned by the Board.

Nomination Committee

Our Company has established a nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our nomination committee consists of three members, namely Mr. Yin Xiaobing (尹曉冰), Ms. Guo Yumei (郭玉梅) and Mr. He Xifeng (何錫鋒). Mr. Yin Xiaobing (尹曉冰) is the chairman of the nomination committee.

The principal responsibilities of the nomination committee are to make recommendations to our Board on the scale, structure, and composition of the Board and on the nomination of Directors, to review the director and senior management candidates, to review the independency of the independent non-executive Directors, and to perform other duties and responsibilities as assigned by the Board.

Strategy and Investment Decision Committee

Our Company has established a strategy and investment decision committee with written terms of reference. Our strategy and investment decision committee consists of three members, namely Ms. Guo Yumei (郭玉梅), Mr. Luo Yun (羅雲) and Mr. Yin Xiaobing (尹曉冰). Ms. Guo Yumei (郭玉梅) is the chairperson of the strategy and investment decision committee.

The principal responsibilities of the strategy and investment decision committee are to conduct studies and make recommendations to the Board on the long-term development plan and strategies, the significant investment or financing plans of the Company, and significant capital investment for operation projects, to review the implementation of those investment and financing plans, and to perform other duties and responsibilities as assigned by the Board.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors and Supervisors receive compensation in the form of salaries, bonuses, and contributions to housing funds, and pension schemes.

The total compensation accrued to our Directors for the years ended December 31, 2014, 2015 and 2016 were approximately RMB273,000, RMB668,000 and RMB498,000, respectively.

The total compensation accrued to our Supervisors for the years ended December 31, 2014, 2015 and 2016 were approximately RMB481,000, RMB628,000 and RMB484,000, respectively.

The total compensation before taxation accrued to our senior management (other than those members of our senior management who were also our Directors or Supervisors for the relevant period) for the years ended December 31, 2014, 2015 and 2016 were approximately nil, RMB410,000 and RMB457,000.

For the year ended December 31, 2014, our five highest paid individuals include two Supervisors and two Directors. For the year ended December 31, 2015, our five highest paid individuals include two Supervisors and two Directors. For the year ended December 31, 2016, our five highest paid individuals include two Supervisors and two Directors. The total compensation before taxation paid to the remaining five highest paid individuals who are not Directors or Supervisors for the years ended December 31, 2014, 2015 and 2016 was RMB247,000, RMB227,000 and RMB235,000, respectively.

We did not pay to our Directors or the five highest paid individuals any inducement fees to join us or as compensation for loss of office for each of the years ended December 31, 2014, 2015 and 2016. Furthermore, none of our Directors waived compensation for the same period.

Under the arrangements currently in force, we estimate the total compensation to be accrued to our Directors and Supervisors from January 1, 2017 to December 31, 2017 to be approximately RMB1.5 million.

COMPLIANCE ADVISER

We have agreed to appoint Haitong International Capital Limited to be our compliance adviser upon Listing on the Hong Kong Stock Exchange in compliance with Rules 3A.19 and 19A.05 of the Listing Rules. We expect to enter into a compliance adviser's agreement with the compliance adviser prior to the Listing Date, the material terms of which are as follows:

- the terms of office of the compliance adviser will commence on the Listing Date of our Company and end on the date on which our annual report for the first full financial year commencing after the Listing Date is published, or until the agreement is terminated, whichever is earlier;

- the compliance adviser will provide us with certain services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the Listing Rules and applicable laws and regulations;

- the compliance adviser will, as soon as reasonably practicable, inform us of any amendment or supplement to the Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any material amendment or supplement to the applicable laws and guidelines; and the compliance adviser will serve as a channel of communication with the Hong Kong Stock Exchange.

This section presents certain information regarding our share capital prior to and immediately following the completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, our total registered share capital was RMB720 million comprising 720,000,000 Domestic Shares of RMB1.00 each and the particulars of our shareholding structure were as follows:

Shareholder	Class	Number of Shares	Approximate percentage of issued share capital
			(%)
Kunming Dianchi Investment Co. Ltd.* (昆明滇池投資有限責任公司)	Domestic Shares	689,886,000	95.82%
Kunming Development Investment Group Co. Ltd.* (昆明發展投資集團有限公司)	Domestic Shares	21,900,000	3.04%
Kunming Industrial Development and Investment Co. Ltd.* (昆明產業開發投資有限責任公司)	Domestic Shares	2,738,000	0.38%
Kunming State-owned Assets Management and Operations Co. Ltd.* (昆明市國有資產管理營運有限責任公司)	Domestic Shares	2,738,000	0.38%
Kunming Xindu Real Estate Co. Ltd.* (昆明新都置業有限公司)	Domestic Shares	2,738,000	0.38%
Total		720,000,000	100.00%

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately after completion of the Global Offering, assuming an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment Option is not exercised, our total issued share capital will be 1,028,572,000 Shares, comprising 689,142,000 Domestic Shares and 339,430,000 H Shares. The particulars of our shareholding structure will be as follows:

Shareholder	Class	Number of Shares	Approximate percentage of issued share capital
			(%)
Kunming Dianchi Investment	Domestic Shares	660,318,635	64.20%
Kunming DIG	Domestic Shares	20,961,403	2.04%
Kunming IDI(3)	Domestic Shares, H Shares	56,162,654	5.46%
Kunming SAMO(4)	Domestic Shares	2,620,654	0.25%
Kunming Xindu	Domestic Shares	2,620,654	0.25%
H Shares to be offered for sale by the Selling Shareholders under the Global Offering(1)	H Shares	30,858,000	3.00%
H Shares issued pursuant to the Global Offering(2)(3)	H Shares	255,030,000	24.80%
Total		1,028,572,000	100.00%

Notes:

(1) In accordance with relevant PRC regulations regarding the reduction of state-owned shares, our state-owned shareholders are required to transfer to NSSF such number of Domestic 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, or pay the equivalent cash at the Offer Price under the Global Offering to NSSF, or a combination of both. NSSF issued a letter on October 13, 2016 to instruct us to arrange for the sale of the Sale Shares and remit the proceeds therefrom to the account designated by NSSF. See "Transfer of State-owned Shares" below for more details.

(2) This excludes the 53,542,000 H Shares to be issued to Kunming Industrial Development pursuant to the cornerstone investment agreement with Kunming Industrial Development, which accounts for approximately 5.2% of the issued share capital of the Company immediately after completion of the Global Offering assuming an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment is not exercised.

(3) This includes 0.25% interest held directly by Kunming IDI as well as an approximate 5.2% interest to be subscribed by Kunming Industrial Development under the International Offering pursuant to a cornerstone investment agreement. Please refer to the section headed "Cornerstone Investors" in this prospectus for further information.

(4) Kunming SAMO is expected to subscribe for Offer Shares under the International Offering, the amount of which has not yet been determined and this is therefore not reflected in the shareholdings of Kunming SAMO and the other public Shareholders as set out in the chart above. Please refer to the announcement of results of allocations for details of the final subscription amount of Kunming SAMO. Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules — Waiver in relation to subscription of H Shares by certain existing shareholders" for further information.

Immediately after completion of the Global Offering, assuming an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment Option is exercised in full, our total issued share capital will be 1,074,857,000 Shares, comprising 684,513,000 Domestic Shares and 390,344,000 H Shares. The particulars of our shareholding structure will be as follows:

Shareholder	Class	Number of Shares	Approximate percentage of issued share capital
			(%)
Kunming Dianchi Investment	Domestic Shares	655,883,243	61.02%
Kunming DIG	Domestic Shares	20,820,604	1.94%
Kunming IDI(3)	Domestic Shares, H Shares	56,145,051	5.22%
Kunming SAMO(4)	Domestic Shares	2,603,051	0.24%
Kunming Xindu	Domestic Shares	2,603,051	0.24%
H Shares to be offered for sale by the Selling Shareholders under the Global Offering(1)	H Shares	35,487,000	3.30%
H Shares issued pursuant to the Global Offering(2)(3)	H Shares	301,315,000	28.04%
Total		1,074,857,000	100.00%

Notes:

(1) In accordance with relevant PRC regulations regarding the reduction of state-owned shares, our state-owned shareholders are required to transfer to NSSF such number of Domestic 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, or pay the equivalent cash at the Offer Price under the Global Offering to NSSF, or a combination of both. NSSF issued a letter on October 13, 2016 to instruct us to arrange for the sale of the Sale Shares and remit the proceeds therefrom to the account designated by NSSF. See "Transfer of State-owned Shares" below for more details.

(2) This excludes the 53,542,000 H Shares to be issued to Kunming Industrial Development pursuant to the cornerstone investment agreement with Kunming Industrial Development, which accounts for approximately 5.0% of the issued share capital of the Company immediately after completion of the Global Offering, assuming an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment Option is exercised in full.

(3) This includes 0.25% interest held directly by Kunming IDI as well as an approximate 5.0% interest to be subscribed by Kunming Industrial Development under the International Offering pursuant to a cornerstone investment agreement. Please refer to the section headed "Cornerstone Investors" in this prospectus for further information.

(4) Kunming SAMO is expected to subscribe for Offer Shares under the International Offering, the amount of which has not yet been determined and this is therefore not reflected in the shareholdings of Kunming SAMO and the other public Shareholders as set out in the chart above. Please refer to the announcement of results of allocations for details of the final subscription amount of Kunming SAMO. Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules — Waiver in relation to subscription of H Shares by certain existing shareholders" for further information.

RANKING OF OUR SHARES

The H Shares to be issued upon the completion of the Global Offering and the Domestic Shares are ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for or traded by legal or natural persons of the PRC. All dividends in respect of the H Shares and the Domestic Shares are to be paid by us in Hong Kong dollars and RMB, respectively.

In addition, H Shares and Domestic Shares are regarded as different classes of Shares under our Articles of Association. The differences between the two classes of Shares, including rights of the classes, despatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the method of Share transfer and appointment of dividend receiving agents are set out in our Articles of Association and summarized in the section headed "Appendix V — Summary of the Articles of Association" in this prospectus. Further, any change or abrogation of the rights of a class of Shareholders should be approved by way of a special resolution of the general meeting of Shareholders and by a separate meeting of Shareholders of the affected class of Shares. However, the procedures for approval by Shareholders of the affected class of Shares shall not apply (i) where we issue, upon approval by a special resolution of our Shareholders in a general meeting, either separately or concurrently every 12 months, not more than 20% of each of the existing issued H Shares and Domestic Shares; (ii) where our plan to issue H Shares and Domestic Shares is implemented within 24 months from the date of approval by the securities regulatory authority under the State Council; or (iii) upon approval by the securities regulatory authority under the State Council, holders of our Domestic Shares transfer their Shares to overseas investors and list or trade their Shares in an overseas securities exchange. H Shares and Domestic Shares will however rank pari passu with each other in all other respects and, in particular, will rank equally (regardless of the kind of currency of payment) for all dividends or distributions declared, paid or made after the date of this prospectus. H Shares and Domestic Shares are generally neither interchangeable nor fungible.

GENERAL MEETING AND CLASS MEETING

For details of circumstances under which our Shareholders' general meeting and class meeting are required, see sections headed "Appendix V — Summary of the Articles of Association — Notice and Schedule of the General Meeting" and "Appendix V — Summary of the Articles of Association — Voting Rights (Generally Relating to Rights on Poll or Rights to Demand a Poll)" in this prospectus.

CONVERSION OF OUR DOMESTIC SHARES FOR LISTING AND TRADING ON THE HONG KONG STOCK EXCHANGE

Conversion of our Domestic Shares

Upon completion of the Global Offering, we will have two classes of ordinary Shares, namely our Domestic Shares and H Shares. All of our Domestic Shares are shares which are not listed or traded on any stock exchange. According to the stipulations by the State

Council's securities regulatory authority and our Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed and traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion and trading shall in all respects comply with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. Our PRC legal counsel confirms that such conversion is consistent with the Articles of Association and in compliance with the PRC laws and regulations.

If any of our Domestic Shares are to be converted and to be traded as H Shares on the Stock Exchange, such conversion require the approval of the relevant PRC regulatory authorities, including the CSRC. The listing of such converted H Shares on the Stock Exchange will also require the approval of the Stock Exchange at the time of conversion instead of at the time of our initial listing. The approval of the Stock Exchange is ordinarily considered by the Stock Exchange as an administrative matter only. Based on the methodology and procedures for the conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of Shares for entry on the H Share register.

No class Shareholder voting is required for the conversion, listing and trading of the converted Shares on an overseas stock exchange. Any application for listing of the converted Shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed conversion.

Please see sections headed "Risk Factors — Risks Relating to the Global Offering — Any possible conversion of our Domestic Shares into H Shares in the future could increase the number of our H Shares in the market and negatively impact the market price of our H Shares" and "Risk Factors — Risks Relating to the Global Offering — Potential investors will experience immediate dilution as a result of the Global Offering and may face future dilution as a result of future financings" in this prospectus.

Mechanism and procedure for conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to give effect to the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be on the conditions that (a) our H Share Registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due despatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange will comply with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders proposes to convert any of their Domestic Shares into H Shares except for the Domestic Shares to be converted and transferred to NSSF in connection with the Global Offering in accordance with the relevant PRC regulations regarding the transfer of State-owned Shares.

Transfer of Shares issued prior to the Global Offering

Pursuant to the Company Law, the Shares issued prior to any public offering of our Shares should not be transferred within a period of one year from the date on which our Shares are publicly offered and listed on the relevant stock exchange. However, the Shares to be transferred by the State-owned Shareholders to the NSSF in accordance with the relevant PRC regulations regarding the transfer of State-owned Shares are not subject to such restrictions.

TRANSFER OF STATE-OWNED SHARES

In accordance with the relevant PRC regulations regarding disposal of State-owned Shares, our state-owned Shareholders are required to transfer to the NSSF such number of Domestic Shares, which in aggregate is equivalent to 10% of the number of the new Shares to be issued (being 30,858,000 H Shares before the exercise of the Over-allotment Option or 35,487,000 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. At the time of the Listing on the Stock Exchange, such Domestic Shares transferred to NSSF by the state-owned Shareholders will be converted into H Shares on a one-for-one basis. Neither our Company nor the Controlling Shareholder will receive any proceeds from the transfer of Shares to the NSSF.

The transfer of State-owned Shares by the abovementioned state-owned Shareholder to NSSF was approved by SASAC on April 21, 2016. The conversion of these Domestic Shares into H Shares was approved by the CSRC on November 15, 2016.

Pursuant to a letter issued by the NSSF (She Bao Ji Jing Fa [2016] No. 130) on October 13, 2016, the NSSF instructed us (i) arrange for the sale of the Sale Shares and (ii) remit the proceeds from the sale of the Sale Shares to an account designated by NSSF. We have been advised by Yunnan Beichuan Law Firm, our PRC legal counsel, that the conversion and sale described above have been approved by the relevant PRC authorities and are legal under PRC law.

As of the date of this prospectus, the following persons directly or indirectly control, or are entitled to exercise the control of, 5% or more of our Domestic Shares:

Shareholders	Number of Shares held	Approximate Shareholding percentage
Kunming Dianchi Investment ·	689,886,000	95.82%

So far as our Directors are aware, immediately following the completion of the Global Offering, the following persons will have an interest or short position in our Shares or underlying shares of our Company which would be 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 will, directly or indirectly, be interested 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 our Company:

			Immediately following the completion of the Global Offering (assuming no exercise of the Over-Allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-Allotment Option)		
Name of Shareholder	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company	Number of Shares directly or indirectly held	Approximate % interest in our Company	Approximate % of the relevant class of Shares of our Company
Kunming Dianchi Investment	Beneficial owner	Domestic Shares	660,318,635	64.20%	95.82%	655,883,243	61.02%	95.82%
Kunming IDI[(1)(2)] · · ·	Beneficial owner	Domestic Shares, H Shares	56,162,654	5.46%	0.38% of Domestic Shares, 15.77% of H Shares	56,145,051	5.22%	0.38% of Domestic Shares, 13.72% of H Shares
Yunnan Provincial Investment Holdings Group Co., Ltd.[(2)] · · · · · ·	Beneficial owner	H Shares	58,770,000	5.71%	17.31%	58,770,000	5.47%	15.06%
Beijing Enterprises Water Group Limited[(2)] · · · · · ·	Beneficial owner	H Shares	41,464,000	4.03%	12.22%	41,464,000	3.86%	10.62%
China Water Environment Group Limited[(2)] · · ·	Beneficial owner	H Shares	18,027,000	1.75%	5.31%	18,027,000	1.68%	4.62%

Notes:

(1) This includes the 53,542,000 H Shares to be issued to Kunming Industrial Development pursuant to the cornerstone investment agreement with Kunming Industrial Development, assuming an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment is not exercised.

(2) This assumes an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus) and that the Over-allotment is not exercised.

(3) Kunming SAMO is expected to subscribe for Offer Shares under the International Offering, the amount of which has not yet been determined and Kunming SAMO may be subject to the abovementioned disclosure requirements depending on the final allocation of Offer Shares. Please refer to the announcement of results of allocations for details of the final subscription amount of Kunming SAMO. Please also refer to the section headed "Waivers from Strict Compliance with the Listing Rules — Waiver in relation to subscription of H Shares by certain existing shareholders" for further information.

You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in "Appendix I — Accountant's Report" to this prospectus. The consolidated financial information has been prepared in accordance with IFRSs.

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

OVERVIEW

We are a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, and a provider of integrated water-related services, including running water supply services in China's water industry. We enjoy exclusive rights to provide wastewater treatment services in Kunming and some other parts of China. We ranked first in Yunnan Province in terms of wastewater treatment capacity and annual treatment volume, according to Frost & Sullivan, as of December 31, 2015. Our concession-based business model, technology, project execution capability and geographical expansion have allowed us to enjoy stable income and steady growth in our operations. During the Track Record Period, our revenues were generated from three major business segments:

- Wastewater treatment;
- Other water-related services, comprising:
  - reclaimed water supply, and
  - running water supply; and
- Others, primarily comprising management services and others.

During the Track Record Period, we experienced steady growth in revenue and profit. For the years ended December 31, 2014, 2015 and 2016 , our revenue was RMB735.2 million, RMB825.1 million and RMB914.9 million, respectively. For the same periods, our gross profit was RMB365.4 million, RMB378.1 million and RMB425.5 million, respectively. Our revenue grew at a CAGR of 11.6% from 2014 to 2016, and gross profit at a CAGR of 7.9% in the same period.

BASIS OF PRESENTATION

We were established in Yunnan Province in the PRC on December 23, 2010 as a joint stock company with limited liability. Prior to our incorporation, our principal business activities were carried out by Kunming Dianchi Investment Co. Ltd., our Controlling Shareholder, which operates under the supervision of the Kunming SASAC. From 2010 to 2015, our Controlling Shareholder gradually transferred its productive wastewater treatment and reclaimed water supply facilities to us, while retaining the assets that were not related to wastewater treatment, reclaimed water supply and running water supply services, or assets that were not in the commercial operation stages of development.

Our consolidated financial statements have been prepared in accordance with IFRSs and under the historical cost convention. The consolidated balance sheet of our Group at each end of the periods of the Track Record Period and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement for cash flows for each period in the Track Record Period have been prepared to include the financial information of the wastewater treatment facilities and Group companies now comprising the Group but previously under the control of our Controlling Shareholder as if the facilities and companies had been part of the Group throughout each period in the Track Record Period, or since the date when the facilities and companies first became controlled by our Controlling Shareholder, whichever is a shorter period.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

Volume of wastewater treated

The volume of wastewater we treat may affect the revenue and profits we derive from such business during each of our financial years. The amount of the service we provide is driven by various factors, including local population growth, urbanization, pipeline infrastructure development and precipitation levels. For our wastewater treatment projects under concession agreements, all of our existing contracts stipulate a guaranteed minimum treated effluent volume, typically given as a percentage of the designed capacities of our facilities. In other words, if the treated volume is lower than the stipulated minimum, we are entitled to receive a payment based on the guaranteed minimum volume set out in the relevant agreement. If the treated volume exceeds the stipulated minimum, we are entitled to receive a payment for the actual volume of wastewater we treated. For the year ended December 31, 2016, our wastewater treatment plants in Kunming main city area were operating at either close to or over their designed capacities, with a weighted average utilization rate of 110.28%. Any of the factors affecting the volume of wastewater we treat may cause our revenue to vary from one financial period to another.

Pricing policies regarding our wastewater treatment and running water supply services

Our results of operations are affected by the government pricing policies regarding wastewater treatment and running water supply services in the regions we operate. Tariff rates for our wastewater treatment services are pre-determined at the time when we enter into the project agreements with the local governments or their designees. Accordingly, our revenues and profits are affected by such tariff rates, which are determined by local governments based on factors including the economic indicators for the regions in which our facilities are operating, the actual amounts of wastewater discharged and the operating costs of wastewater treatment plants in the relevant area. Similarly, pricing policies regarding our running water supply business are also governed by pre-determined tariff rates and guaranteed minimum supply volume as agreed with the relevant local governments or their designees.

For our concession arrangement projects, the concession agreements contain provisions specifying when and under what circumstances the parties can adjust the tariffs, generally with references to inflation and changes in benchmark interest rates on loans or utilities charges. However, requests for tariff adjustments are subject to the consent of the relevant local governments and the approval of the public in respect to the public procurement portion of our tariff, which may be given at a time later than anticipated. The time lag between the changes in operational costs and the government tariff adjustments could continue to impact on our profit margins. As a result, our profitability could increase or decrease as a result of such variations in the pricing policies regarding our services.

Our ability to grow and expand our businesses

Our results of operations are affected by our ability to grow and expand our businesses. We intend to further expand our wastewater treatment, reclaimed water supply and running water supply businesses into new markets, particularly in Southwest China and Southeast Asia. In our efforts to expand our businesses beyond our existing service regions, we assess a variety of factors, including the existence or the lack of similar facilities in the region, the demand for any facility upgrades associated with tightened government standards in water quality, and opportunities for new market players. Such opportunities for our entry into other regions are driven by various factors, including population growth, urbanization, improving economic conditions, government policies and environmental awareness of the relevant regions.

We face competition in expanding our businesses and increasing our market share. Our competitors include state-owned enterprises, sino-foreign joint venture companies and privately-owned enterprise, some of which may have a lower cost structure than ours due to various factors such as lower capital expenditures or lower labor costs. We believe that factors that are critical to our competitiveness in this market include project execution capability, understanding of the local governmental landscape, relationships with local governments, quality and price of services, brand reputation, financing abilities, marketing and customer services. Increased competition may also drive up the prices for potential deals, which can affect our ability to expand our business at a reasonable cost. The level of competition and our ability to sustain our competitive advantage could therefore have an impact on our business and results of operations.

Since March 2014, we have expanded our service coverage to regions outside of Kunming through the acquisition of existing plants and the construction of new plants. We plan to further increase our market presence in China and to expand abroad. As of December 31, 2016, we had wastewater treatment plants operating in the Yunnan, Guizhou, Anhui and Zhejiang Provinces, and had signed agreements with the government of Laos to provide wastewater treatment and running water supply services. For details, please see sections headed "Business — Our Businesses — Our Projects", "Risk Factors — Risks Relating to Our Business and Industry — Our planned expansion in new geographical regions in China may not be successful" and "Risk Factors — Risks Relating to Our Business and Industry — Our efforts to enter into international markets outside of the PRC may not be successful" in this prospectus. We will continue to focus on markets where growing urbanization, increasing standards of living, and rising environmental awareness are creating further opportunities for our growth. Meanwhile, different geographic markets may offer different rates of return, and the overall profit margin of our business may be affected by our expansion as a result.

Taxation

Enterprise Income Tax

Our results of operations and profitability are affected by changes in tax rates in the PRC. Our Group companies operating in the PRC are subject to the 25% enterprise income tax on taxable income as reported in their PRC statutory accounts and as adjusted in accordance with the relevant PRC income tax laws.

Pursuant to China's "Developing Western China Policy", in order to encourage the development of water conservation projects in the western regions of China, companies carrying out wastewater treatment or water supply services in such regions are entitled to a preferential enterprise income tax rate of 15%, provided that more than 70% of their revenues are derived from these principal businesses. As of December 31, 2016, most of our wastewater treatment and reclaimed water supply facilities were entitled to such preferential tax treatment.

In addition, pursuant to the relevant PRC laws and regulations, in order to encourage the development of wastewater treatment projects, new wastewater treatment plants and newly upgraded facilities meeting the criteria provided in the "Catalogue for Public Basic Infrastructure Projects" (公共基礎設施專案目錄) are given a tax holiday that provides three years' exemption from enterprise income tax, followed by a 50% reduction in enterprise income tax for the following three years.

The Company has also been accredited as a "High-tech Enterprise" by, among others, the Yunnan Provincial Science and Technology Department since 2014, which allows facilities directly held by the Company meeting certain criteria to enjoy a 15% enterprise income tax rate.

Moreover, facilities using resources stipulated in the "Catalogue for Comprehensive Utilization of Resources Project Qualified for Corporate Income Tax Preferential Treatments" (資源綜合利用專案目錄) as their major raw materials are entitled to a 10% reduction in enterprise income tax. As of December 31, 2016, all the companies holding our reclaimed water supply facilities were entitled to such preferential tax treatment.

VAT

In addition to enterprise income tax, the value-added tax applicable to our businesses has also fluctuated during the Track Record Period. Pursuant to the Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (資源綜合利用產品和勞務增值稅優惠目錄) issued by the State Administration of Taxation, since July 1, 2015, the wastewater treatment business and the reclaimed water supply business of the Group were no longer fully exempted from value-added tax and have been subject to a 17.0% value-added tax, but also have been qualified for 70% and 50% value-added tax refunds, respectively. Our running water supply business has been subject to a 3.0% value-added tax since the beginning of the Track Record Period and is not qualified for any tax refund.

For the years ended December 31, 2014, 2015 and 2016, our effective tax rates, calculated as income tax expenses divided by profit before income tax, was 11.7%, 11.3% and 15.7%, respectively. Our effective tax rates from year to year may increase in the future due to the expiration of any preferential tax treatment, additions of new projects that do not enjoy preferential tax treatment or any changes in tax policies.

Material changes in the taxes applicable to our business in the PRC have affected and will continue to affect our tax expenses and profitability.

Project portfolio and business model mix

Project portfolio. Our average profit margin for a certain financial period is affected by the projects we undertake and the stages of completion of these projects. Since our establishment in 2010, we have developed from a municipal wastewater treatment operator to an integrated water-related services provider that conducts the design, construction, and operation of municipal wastewater treatment, reclaimed water supply and running water supply facilities. Typically, our wastewater treatment and running water supply operations (both excluding construction services) offer the highest gross profit margins, generally above 40%. Meanwhile, the profitability of our reclaimed water business service is more volatile than that of our wastewater treatment and running water supply businesses, because the reclaimed water business does not operate under a concessionary business model and is therefore more sensitive to market forces. Due to different profit margins, capital structures, and cash flows offered by the various individual projects, our overall financial performance is expected to be affected by the mix of projects we undertake and their respective contributions to our total revenue and profit.

Business model mix. We also use different business models, including TOO, BOO, TOT, BOT and BT. The differences in business models have had an impact on our revenue and cost recognition, gross profit margin and cash flows. For example, we recognize revenue from BOT projects during both the construction and the operational phases of the projects. However, while we recognize construction revenue for the BOT projects, we actually do not receive any payment from the local governments for our construction services. The actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash tariff payments during the operational phase of the relevant BOT projects over the stipulated concession periods, and it may take up to 30 years to settle the mismatch. In contrast, for our TOO projects, we recognize revenue only when we provide wastewater treatment services under the operational phase and we normally expect to receive the cash flow matching the recognized revenue. Meanwhile, due to the low profit margin of the construction phase of BOT projects, our blended profit margin may be negatively affected during the construction phase of BOT projects. Should we undertake more BOT projects in the future, it could result in a cash flow mismatch as we may not have the cash inflow matching the revenue recognized during the construction phase of our BOT projects, and our blended profit margin may also be affected.

Government policies, regulations and approvals

We are engaged in an industry where government policies, regulatory standards and government approvals play critical roles in influencing the operation of our services. Any changes in legislative, regulatory or industrial requirements could have an impact on our financial performance and our ability to provide our wastewater treatment, reclaimed water supply and running water supply services.

Our growth prospect is also heavily dependent upon government expenditure on the environmental protection industries. In recent years, the PRC government has increased its spending on wastewater treatment and water supply facilities. The 13th Five-Year Wastewater Treatment Plan promulgated by the PRC government in December 2016 stipulates detailed construction targets, require the local governments to speed up construction of wastewater treatment and water supply plants and encourage wastewater treatment operators to increase the utilization of effluent for reclaimed water production. As local governments increase spending to improve water supplies and wastewater treatment, our business is expected to benefit from the increased investment on environmental protection industries. As a result of the PRC government's favorable policies on environment protection, we received government grants relating to property, plant and equipment and R&D activities amounting to RMB8.1 million, RMB76.2 million and RMB30.3 million, for the years ended December 31, 2014, 2015 and 2016.

Furthermore, with environmental protection remaining a priority for the PRC government in the 13th Five-Year Plan, we expect stricter environmental protection and water quality standards to be promulgated, which may create additional growth prospect for our businesses. In recent years, environmental regulatory requirements in China are becoming increasingly stringent as the PRC government sets stricter water quality standards. Accordingly, companies that fall below the required standard or those that illegally discharge wastewater may be subject to substantial fines or, in extreme cases, required to close their facilities. Although these stricter regulatory requirements may lead to higher compliance costs, we believe they present new business opportunities for us due to our ability to provide integrated wastewater treatment and water supply solutions to local governments that meet the relevant environmental regulatory requirements. We believe that an increasing number of wastewater treatment plants in the PRC will need to be built, upgraded or replaced, which likely will lead to more growth opportunities for our services.

Meanwhile, our business and operations in China require permits, licenses and certificates from the relevant government authorities. From time to time, changes in the rules and regulations or the implementation thereof may require us to obtain additional approvals and licenses from PRC authorities for our operations in China. In such event, we may need to incur additional expenses in order to comply with such requirements. In addition, some of these licenses, permits and certificates are subject to periodic reviews and renewals by the relevant governmental authorities and the standards of compliance required may from time to time be subject to change without advance notice. Any changes in the existing government policies and regulations relating to wastewater treatment, reclaimed water supply and running water supply services industries may result in our failure to obtain or maintain such permits, licenses and certificates, which could have a negative impact on our financial condition and results of operations.

Access to capital and finance costs

Our businesses are capital intensive. We need substantial amount of capital for the expansion of our businesses as well as for the construction and acquisition of new facilities. As a result, our performance is affected by our access to capital and the total amount of capital we are able to raise through other financing efforts, as well as any interest rate fluctuations. We actively seek to finance the development of our water projects and other capital expenditures through our internal resources as supplemented by bank borrowings and the issuance of equity and debt securities such as the corporate bonds of RMB700.0 million we issued on December 25, 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%.

Our borrowings and interest expenses on borrowings could affect our financial performance. As of December 31, 2014, 2015 and 2016, the outstanding balance of our borrowings were RMB1,142.9 million, RMB1,950.9 million and RMB1,520.7 million, respectively. The weighted average effective interest rates of our borrowings were 7.2%, 5.5% and 4.8% as of December 31, 2014, 2015 and 2016, respectively and our interests expenses on borrowings were RMB72.8 million, RMB75.4 million and RMB88.8 million, respectively, for the years ended December 31, 2014, 2015 and 2016.

Any change in the interest rates of our borrowings or the amount of our borrowings will affect our interest payments and finance costs, which in turn could affect our cash flow, financial condition and results of operations. As our bank loans and corporate bonds during the Track Record Period are all denominated in Renminbi, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC. Furthermore, changes in the benchmark lending rates and bank reserve requirement ratios by the PBOC may affect the amount of funds available to commercial banks in the PRC to lend to businesses, including our Group. We cannot assure you that the PBOC will not further raise the lending rates or reserve requirement ratios in the future, and any such increases may increase our finance costs and thereby materially and adversely affect our business, financial condition, results of operations and prospects.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Critical accounting policies and estimates are those that require our management to exercise judgment and make estimates that could yield materially different results if our management were to apply different assumptions or make different estimates. Our financial information has been prepared in accordance with IFRSs.

IFRSs require our management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Our management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods. During the Track Record Period, we did not revise our estimates or underlying assumptions, and our estimates and associated assumptions did not materially deviate from the actual results. Our Directors do not expect that our estimates or underlying assumptions will change in the foreseeable future.

Below is a summary of the accounting policies in accordance with IFRSs that we believe are both important to the presentation of our financial results and require us to make judgments, estimates and assumptions about matters that are inherently uncertain. We also have other policies that we consider to be significant accounting policies which are set out in detail in Notes 2 and 4 of Section II of the Accountant's Report as set out in Appendix I to this prospectus.

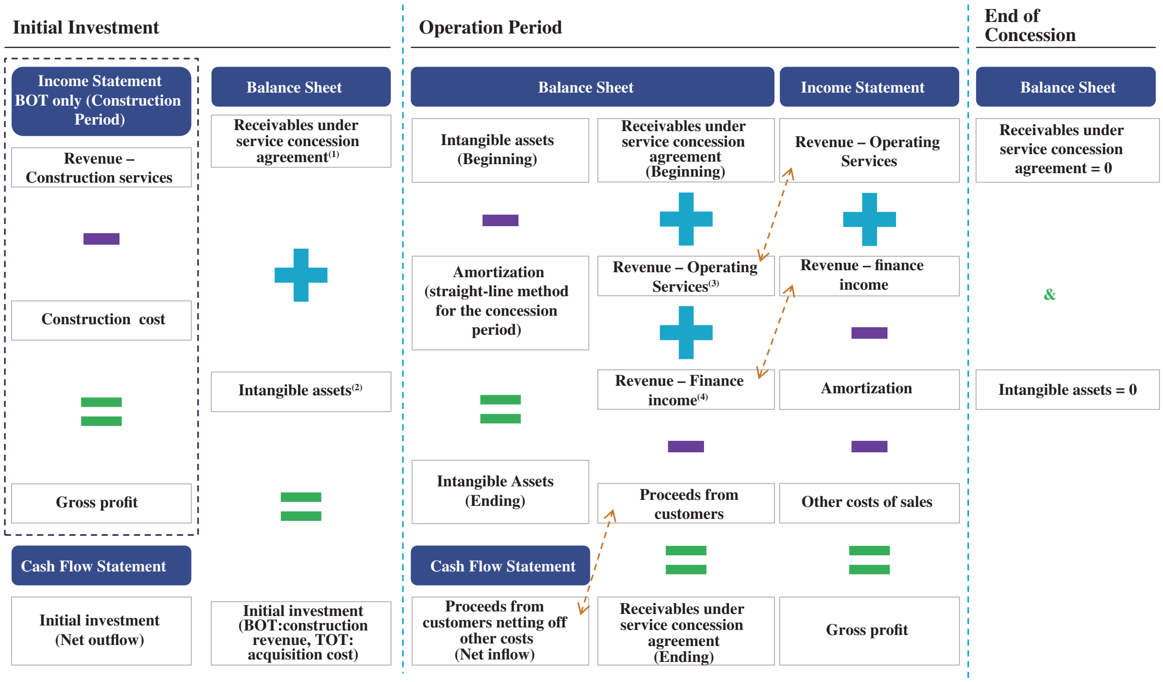
Project models

The applicable accounting treatment for the different project models are summarized in the charts below:

Models	Construction/Initial Investment	Operational/Collection Period
BOT	IFRIC 12 Service Concession Arrangements	IFRIC 12 Service Concession Arrangements
TOT	IFRIC 12 Service Concession Arrangements	IFRIC 12 Service Concession Arrangements
BT	IAS11 Construction Contracts	IAS39 Financial Instrument: Recognition and Measurement
BOO	IAS16 Property, plant and equipment	IAS16 Property, plant and equipment, IAS 18 Revenue
TOO	IAS16 Property, plant and equipment	IAS16 Property, plant and equipment, IAS 18 Revenue

Typical Accounting Treatment of BOT/TOT Projects

For BOT/TOT projects, the initial investment amount will be capitalized as receivables under service concession agreement, intangible assets, or a combination of both, and intangible assets undergo continuous amortization to the Statement of Comprehensive Income.



Notes:

(1) Represent the right of revenue collection for guaranteed minimum intake: forecast operational metrics and calculate the ratio of the current value of revenue corresponding to guaranteed minimum intake in the current value of total revenue, which will be the ratio of such assets in the initial investment amount. The initial recognition amount is limited to construction revenue or acquisition cost.

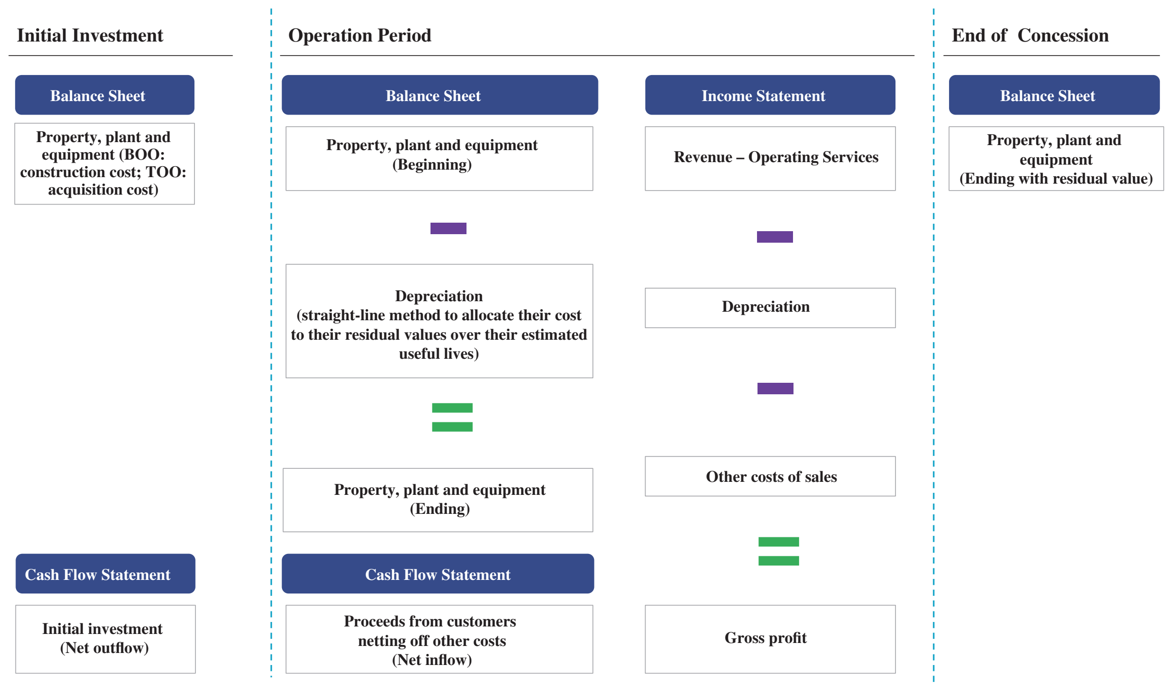
(2) Represent the right of revenue collection for volume beyond guaranteed minimum intake: initial investment amount net of the amount recognized as receivables under service concession agreement will be capitalized as intangible assets.

(3) Operating services revenue recognized on the basis of actual costs with a reasonable profit margin.

(4) Financial income generated from receivables under service concession agreement (financial assets) based on a reasonable interest rate which reflects the credit risk of the grantor.

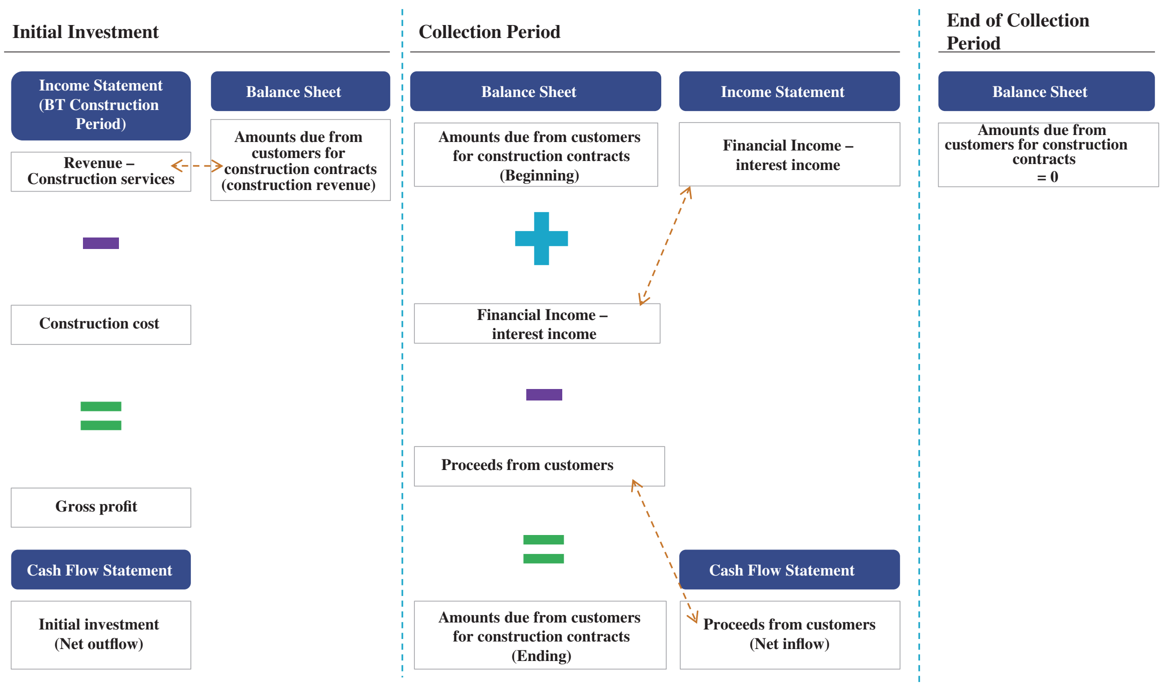
Typical Accounting Treatment of BOO/TOO Projects

For BOO/TOO projects, the initial investment amount will be capitalized as property, plant and equipment, and depreciate during operational period.



Typical Accounting Treatment of BT Projects

For BT projects, the initial investment amount will be capitalized as amounts due from customers for construction contracts and then finance income will be recognized during the collection period.



Different project models affect how revenue is recognized and allocated during the construction and operation phases of the project, with corresponding cash flow impact. For example, for BOT Projects, during the construction phase, construction revenue is recognized by the percentage of completion of the construction activity. We record a corresponding financial asset (a receivable) when we have an unconditional contractual right to receive cash, which is initially measured by discounting the underlying guaranteed future cash receipts and subsequently measured at amortized cost, and/or record an intangible asset when we do not have a contractual right to receive guaranteed minimum cash, which is initially measured at the remainder value and subsequently amortized on a straight line basis. During the operation phase, we account for service revenue in accordance with IAS 18 Revenue, and account for finance income in accordance with IAS 39 Financial Instrument: Recognition and Measurement. The allocation of consideration attributable to the construction and operation activities is based on the relative fair value. Factors such as estimates of cost of the different activities and appropriate profit margins are considered to determinate the fair values of the respective activities. Cash paid for construction is classified as operating cash outflow, and the cash received during the operation period is recognized as operating cash inflow.

In comparison, for BOO Projects, during the construction phase, the capital expenditure is recognized as construction in progress under Property, plant and equipment, and no revenue would be recognized. During the operation phase, we account for service revenue in accordance with IAS 18 Revenue. Cash paid for construction is classified as investing cash outflow. Cash received during the operation period is recognized as operating cash inflow.

Service concession arrangements

We have entered into a number of BOT and TOT agreements with local governments. The consideration we paid for a BOT or a TOT agreement is accounted for as a financial asset, an intangible asset or a combination of both, as appropriate. A financial asset (receivable under service concession arrangement) is recognized to the extent that we have an unconditional right to receive tariff payments based on a guaranteed minimum volume stipulated under the concession agreements. Conversely, an intangible asset (operating concession) is recognized to the extent that our right to charge users or local governments is contingent upon the usage or amount of services rendered. If we are paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognized initially at the fair value of the consideration.

Significant judgment is exercised in determining the fair value of the consideration for construction service and the financial receivables at initial recognition. Major estimates and assumptions used in the valuation process include the discount rate, concession period, tariff, gross margin and treated effluent volume for the BOT/TOT model and the discount rate for the BT model. Any change in the expected cash flows will result in change in the carrying value of the financial receivable.

See “Appendix I — Accountant’s Report — Note 2.10 of Section II — Service concession arrangements”.

Impairment of trade and other receivables and receivables under service concession arrangements

We record impairments of receivables based on our management’s assessment of the recoverability of trade and other receivables and receivables under service concession arrangements. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Making an impairment assessment requires the use of judgment and estimate. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

Property, plant and equipment

We account for property, plant and equipment, other than construction in progress, at historical cost less depreciation and provision for impairment loss, if any. An item’s historical cost includes expenditure directly attributable to the acquisition of such item. Subsequent costs are included in the item’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to our income statement as a profit or a loss during the financial period in which they are incurred.

We received certain completed wastewater treatment and reclaimed water supply facilities as capital injection from our controlling shareholder and undertake the operation and maintenance of such facilities we own in the concession period, during which we can charge service fees based on the volume of wastewater treated and reclaimed water supplied to cover the facilities' costs of investment, operations and maintenance and obtain reasonable return, according to the concession agreements we entered with the local governmental authorities ("**TOO Model**"). Since we directed the use of the assets and controlled the significant residual interest in the assets under the TOO Model during the concession period and we have the exclusive right to extend our operation period and are not require to return these assets to the governmental authorities at the end of the concession periods, the fixed assets under the TOO Model are accounted for as property, plant and equipment. Similarly, property, plant and equipment and land use rights in relation to projects under BOO model would also continue to be accounted as property, plant and equipment and land use rights in the Consolidated Balance Sheets at the end of the concession period.

See "Appendix I — Accountant's Report — Note 2.7 of Section II — Property, plant and equipment".

Land use rights

All parcels of land in the PRC are state-owned or collectively-owned and individual land ownership does not exist. The premiums paid for such rights are treated as repayments for operating leases and recorded as land use rights, which are stated at cost less accumulative amortization and accumulated impairment losses, if any. Land use rights are amortized over the lease period of 48 to 50 years using a straight-line method. See "Appendix I — Accountant's Report — Note 2.8 of Section II — Land use rights".

Revenue recognition for construction and services contracts

We use the "percentage-of-completion" method to determine the appropriate amount of revenue to recognize in a given period. Our management estimates the percentage of completion of construction or service work based on the actual cost incurred over the total budgeted cost, where the corresponding contract revenue is also estimated by our management. Because of the nature of construction or service contract activities, the date when the activity is commenced and the date when the activity is completed typically fall into different accounting periods. We review and revise our estimates of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as work pursuant to such contract progresses. See "Appendix I — Accountant's Report — Note 2.15 of Section II — Construction contracts".

Fair value assessment of construction revenues from BOT projects is based on the estimates of cost and appropriate profit margins. The profit margins for most of the Group's projects are generally no more than 1%, as the directors of the Company consider that there are considerable uncertainties that depend on the outcome of future events before the completion of construction. The directors of the Company consider this profit margin to be low comparing to other companies in the same industry because the Company adopts a prudent approach to construction revenue recognition in light of the uncertainties involved in the construction process. No external valuer was engaged on this area, since the management is well experienced in this industry with sufficient knowledge and competence.

The table below set out a sensitivity analysis showing the change in revenue during the relevant periods if the gross margin of the construction services is changed to 3%:

	Year ended December 31,		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Increase/(Decrease) in Revenue	1,590	2,142	2,225

Government grants

We recognize a grant from the government at its fair value where there is a reasonable assurance that such grant will be received and we will comply with all the conditions attached. Government grants relating to costs are deferred and recognized in our consolidated income statements over the periods necessary to match such revenue with the costs that they are intended to compensate. Government grants relating to assets are included in non-current liabilities as deferred revenue and are credited to the consolidated income statements on a straight-line basis over the expected useful lives of the related asset.

Current and deferred income tax

We are subject to different income tax rates in different regions in the PRC. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. See "Appendix I — Accountant's Report — Note 4(d) of Section II — Current and deferred income tax".

DESCRIPTION OF SELECTED INCOME STATEMENT ITEMS

Revenue

We generate our revenues primarily from three major segments: wastewater treatment segment, other water-related services, and others. The following table sets out a breakdown of our revenues by segment during the Track Record Period:

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Wastewater treatment			
Operating services	665,304	657,906	725,444
Construction services	12,383	38,215	26,187
Finance income	2,897	6,545	14,275
Segment total	680,584	702,666	765,906
Other water-related services			
Operating services	7,521	10,391	12,482
Construction services	12,146	31,040	47,972
Finance income	–	813	1,912
Segment total	19,667	42,244	62,366
Others			
Management services	26,549	74,557	75,941
Others	8,425	5,640	10,712
Segment total	34,974	80,197	86,653
Total Revenue	**735,225**	**825,107**	**914,925**

Revenues from our wastewater treatment and running water supply businesses are derived from our concession projects, under which, according to IFRSs as detailed in Note 2.27 of Section II of the Accountant's Report as set out in Appendix I to this prospectus, revenues are classified into construction revenue, operation revenue and finance income with reference to the respective project models. Specifically, revenues from different models are apportioned into:

- TOO: operation revenue;
- TOT: operation revenue and finance income (recognized in revenue);

- BOT: construction revenue, operation revenue and finance income (recognized in revenue); and

- BT: construction revenue and finance income (recognized in finance costs – net).

We have not directly generated any revenue from the BOO project model during the Track Record Period.

Operation revenue

During the operation phase of our concession projects, we recognize revenue from our TOO, TOT and BOT projects when we render our wastewater treatment services or deliver reclaimed or running water to the users. When tariff payments are received, the total amount received is accounted for as cash inflow. The cash receipt is allocated to settle trade receivables for TOO projects and receivables under service concession arrangements for TOT and BOT projects in our consolidated balance sheets. For our wastewater treatment and other water-related services segments, our operation revenue is presented as the sum of our TOO and TOT operation revenues, and our BOT projects did not generate any operation revenue during the Track Record Period.

Construction revenue

During the construction phase of our BOT projects and BT projects, we recognize construction revenue in our consolidated statements of comprehensive income based on the percentage of completion of our BOT and BT projects.

Finance income

For our TOT and BOT projects, we record the guaranteed minimum tariffs we are entitled to receive under the concession agreements as receivables under service concession arrangements in our consolidated balance sheets. We recognize finance income as interest accrued from the receivables under service concession arrangements. The effective interest rates we adopted during the Track Record Period ranged from 6.51% to 9.23% and was determined with reference to the benchmark interest rates set by the PBOC, the interest rates of provincial government bonds in the PRC and the effective interest rates of comparable companies listed in the PRC and Hong Kong.

Cost of sales

Cost of sales primarily consists of depreciation and amortization costs, utilities and electricity costs, employee benefit expenses, material costs, sludge treatment cost, construction services costs and repair and maintenance costs. For the years ended December 31, 2014, 2015 and 2016, our cost of sales represented approximately 50.3%, 54.2% and 53.5%, respectively, of our revenue for the relevant period.

The following table sets out a breakdown of our cost of sales for the periods indicated:

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Depreciation and amortization	136,527	144,465	168,100
Utilities and electricity	81,300	91,141	80,452
Employee and labor expenses	51,001	55,457	64,482
Costs of sewage and water distribution services	44,038	49,045	54,100
– Material costs	32,616	38,402	42,710
– Costs for sludge treatment	11,422	10,643	11,390
Cost of construction services	25,335	69,255	74,159
Taxes and levies	1,527	5,706	11,725
Transportation costs	5,087	5,161	4,223
Repair and maintenance costs	13,225	13,058	18,422
Office expenditures	1,033	2,924	1,635
Professional expenses	–	622	277
Miscellaneous	10,797	10,133	11,869
Total cost of sales	**369,870**	**446,967**	**489,444**

The following table sets out a breakdown of our cost of sales by segment during the Track Record Period:

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Wastewater treatment	320,310	359,300	378,968
Other water-related services	15,084	37,565	59,074
Others	34,476	50,102	51,402
Total cost of sales	**369,870**	**446,967**	**489,444**

Gross profit and gross margin

The gross profit for an individual business segment is calculated as the revenue of the relevant segment after deducting cost of sales of such segment. Our total gross profit represents the sum of each individual business segment's gross profit.

The gross margin of each business segment is calculated by dividing gross profit of the segment by revenue from such segment for the relevant periods.

The following table sets out a breakdown of our gross profit and gross margin (stated as a percentage of revenue) for the periods stated:

	Year ended December 31,					
	2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Wastewater treatment	360,274	52.9%	343,366	48.9%	386,938	50.5%
Other water-related services	4,583	23.3%	4,679	11.1%	3,292	5.3%
Others	498	1.4%	30,095	37.5%	35,251	40.7%
Total gross margin	**365,355**	**49.7%**	**378,140**	**45.8%**	**425,481**	**46.5%**

Selling expenses

Selling expenses primarily include the 3% commission we pay to Kunming CGE Water Supply Co., Ltd. and Kunming Qingyuan Water Supply Co., Ltd. for the collection of wastewater treatment fees from running water users through public procurement and the employee benefit expenses relating to our direct collection of wastewater treatment fees from individuals and entities using self-supplied water sources. For the years ended December 31, 2014, 2015 and 2016, our selling expenses were RMB8.2 million, RMB9.5 million and RMB10.6 million, representing approximately 1.1%, 1.1% and 1.2%, respectively, of our revenue for the relevant periods.

Administrative expenses

Administrative expenses primarily include costs related to the central administrative functions and professional fees incurred to expand our Group, such as employee benefit expenses, professional expenses, taxes and levies and listing expenses. For the years ended December 31, 2014, 2015 and 2016, our administrative expenses were RMB49.0 million, RMB69.9 million and RMB97.6 million, representing approximately 6.7%, 8.5% and 10.7%, respectively, of our revenue for the relevant periods. Among the professional fees, we paid service fees amounting to nil, RMB6.0 million and RMB6.7 million for the years ended December 31, 2014, 2015 and 2016, respectively, in relation to our acquisition activities.

Research and development expenses

Research and development expenses primarily include materials costs and labor costs relating to our R&D activities. For the years ended December 31, 2014, 2015 and 2016, our research and development expenses were RMB3.9 million, RMB26.1 million and RMB7.4 million, representing approximately 0.5%, 3.2% and 0.8%, respectively, of our revenue for the relevant periods.

Other income

Our other income primarily consists of government grants and interest income from cash and cash equivalents. Government grants we receive can be further classified into those relating to property, plant and equipment, those relating to R&D activities and those relating to value-added tax refund starting from July 1, 2015 pursuant to the Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources (《資源綜合利用產品和勞務增值稅優惠目錄》(財稅[2015]78號)) issued on June 12, 2015 by the MOF and the SAT.

The following table sets out a breakdown of other income for the periods stated:

	Year ended December 31,		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Government grants:	4,209	38,674	75,312
– relating to property, plant and equipment	545	3,346	5,461
– relating to research and development activities	3,664	3,425	6,291
– relating to tax refund	–	31,903	63,560
Interest income from cash and cash equivalents	1,589	1,579	3,329
Others	2,112	2,006	3,378
Other income	**7,910**	**42,259**	**82,019**

It is a common practice for local governments in Yunnan and other provinces to provide government grants to enterprises engaged in wastewater treatment and other water-related services. The main purpose of such government grants is to provide certain compensation to these enterprises. Such compensation covers the construction and operation costs of such companies or project companies in connection with the construction and operation of their water facilities, where applicable. The amount of government grants is determined by the local NDRC or other government authorities by reference to such factors as the designed capacity and investment amount of the relevant projects and plants, and is subject to the total budget set by the provincial governments. We apply to county or city-level development and reform authorities for such grants. The provincial NDRC prepares the government grant plans based on the applications approved and such grants are paid by the county or city-level finance authorities in the following year. The government grants we received generally do not have any conditions attached.

Our government grants were received in the ordinary and usual course of business during the Track Record Period. Because our water-related services are our core businesses, the construction and operation of our wastewater treatment and water supply facilities also form key components of our ordinary and usual course of business. The government grants we received during the Track Record Period were actively derived from our principal business activities and projects, and the amount of such grants was dependent upon the scale of the projects which were associated with such grants.

In addition, the government grants we received during the Track Record Period were not incidental to our core business, but rather formed part of it on a recurring basis. We received government grants throughout the Track Record Period at times set by the government authorities and were not based on the arbitrary discretion of our Directors. Moreover, IFRSs stipulate that the government grants we received during the Track Record Period be recorded as income generated from our operations. We expect that any government grants received in connection with any particular project will continue until the completion of construction of such project.

Other losses/gains

Our other losses consist primarily of disposal losses on the disposal of property, plant and equipment, donation expenses, as well as other miscellaneous losses. For the years ended December 31, 2014, 2015 and 2016, our other losses were RMB4.5 million, RMB2.8 million and RMB1.3 million, respectively.

Operating profit and operating margin

The operating profit for an individual business segment is calculated as the revenue, other revenue and other net income/(losses) attributable to that segment after deducting cost of sales, selling and distribution expenses and administrative expenses of such segment. Our total operating profit represents the total operating profit for the individual business segments after adjusting for unallocated expenses.

The operating margin of each business segment is calculated by dividing operating profit of the segment by revenue from such segment for the relevant periods.

The following table sets out a breakdown of our operating profit and operating margins (stated as a percentage of revenue) for the periods stated:

	Year ended December 31,					
	2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Wastewater treatment	305,254	44.9%	280,741	40.0%	355,229	46.4%
Other water-related services	1,634	8.3%	1,241	2.9%	(468)	(0.8)%
Others	735	2.1%	30,186	37.6%	35,860	41.4%
Total operating margin	**307,623**	**41.8%**	**312,168**	**37.8%**	**390,621**	**42.7%**

Finance costs – net

Our finance income primarily consists of interest income from term deposits, related parties transactions, and construction contracts. Our finance costs primarily consist of interest expenses on borrowings.

The following table sets out a breakdown of finance costs – net for the periods stated:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Finance income:			
– Interest income from term deposits	4,969	1,541	–
– Interest income charged to related parties (Note 38)	20,484	16,644	14,693
– Interest income arising from construction contracts	1,073	1,754	1,923
– Others	–	66	54
	26,526	20,005	16,670
Finance costs:			
– Interest expenses on unsecured borrowings	(36,892)	(52,143)	(45,107)
– Interest expenses on corporate bonds	–	(514)	(31,360)
– Interest expenses on secured borrowings	(35,892)	(22,700)	(12,314)
– Total interest expenses on borrowings	(72,784)	(75,357)	(88,781)
– Less: borrowing costs capitalised in property, plant and equipment	17,508	11,337	8,544
– Interest expenses – net	(55,276)	(64,020)	(80,237)
– Others	(23)	(44)	(62)
	(55,299)	(64,064)	(80,299)
Finance costs – net	(28,773)	(44,059)	(63,629)

Income tax

We are subject to an income tax rate of 25% pursuant to the PRC enterprise income tax laws. Some of our subsidiaries carrying out wastewater treatment or other water services are entitled to a preferential corporate income tax rate of 15% according to PRC's "Developing Western China Policy", some of our subsidiaries meeting the criteria provided in the "Catalogue for Public Basic Infrastructure Projects" are given a tax holiday that provides three years' exemption from corporate income tax, followed by a 50% reduction in corporate income tax for the next three years and our reclaimed water supply facilities are entitled to a 10% reduction in corporate income tax according to the "Catalogue for Comprehensive Utilization of Resources Project Qualified for Corporate Income Tax Preferential Treatments". The Company has also been accredited as a "High-tech Enterprise" by, among others, the Yunnan Provincial Science and Technology Department since 2014, which allows facilities directly held by the Company to enjoy a 15% enterprise income tax rate. For the years ended December 31, 2014, 2015 and 2016, our effective tax rates, calculated as income tax expense divided by profit before income tax, was 11.7%, 11.3% and 15.7%, respectively. Most of our preferential tax treatments are individual-project-based, and except for the tax holiday pursuant to the "Catalogue for Public Basic Infrastructure Projects" which has a fixed term of six years, we do not expect any material difficulties in the renewal of any of the preferential tax treatments we currently enjoy. As of the Latest Practicable Date, we had paid, or made provisions to pay, all the relevant taxes, and we did not have any material disputes or unresolved tax issues with the relevant tax authorities.

The following table sets out a breakdown of income tax and relevant exemption amounts for the periods stated:

	Year ended December 31,		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Profit before income tax	277,895	267,742	326,871
Tax calculated at the domestic CIT rate applicable	69,474	66,936	81,718
Tax effect of:			
Expenses not deductible for tax purpose	409	181	261
Preferential tax rate of certain subsidiaries	(37,529)	(36,923)	(30,653)
Income not subject to income tax	(113)	(125)	(156)
Share of results of associates	143	55	18
Others	(2)	7	5
Income tax expense	**32,382**	**30,131**	**51,193**

CONSOLIDATED RESULTS OF OPERATION

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

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Revenue	**735,225**	**825,107**	**914,925**
Cost of sales	(369,870)	(446,967)	(489,444)
Gross profit	**365,355**	**378,140**	**425,481**
Selling expenses	(8,230)	(9,456)	(10,605)
Administrative expenses	(48,993)	(69,857)	(97,604)
Research and development expenses	(3,918)	(26,144)	(7,398)
Other income	7,910	42,259	82,019
Other losses – net	(4,501)	(2,774)	(1,272)
Operating profit	**307,623**	**312,168**	**390,621**
Finance income	26,526	20,005	16,670
Finance costs	(55,299)	(64,064)	(80,299)
Finance costs – net	(28,773)	(44,059)	(63,629)
Share of results of associates	(955)	(367)	(121)
Profit before income tax	**277,895**	**267,742**	**326,871**
Income tax expense	(32,382)	(30,131)	(51,193)
Total comprehensive income	**245,513**	**237,611**	**275,678**

The following tables set out our revenue and gross profit and operating profit by business segment for the periods indicated:

Wastewater treatment segment

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Segment revenue	**680,584**	**702,666**	**765,906**
– Operating services	665,304	657,906	725,444
– Construction service	12,383	38,215	26,187
– Finance income	2,897	6,545	14,275
Cost of sales by segment	(320,310)	(359,300)	(378,968)
Segment gross profit	**360,274**	**343,366**	**386,938**
Segment operating profit	**305,254**	**280,741**	**355,229**

Other water-related services segment

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Segment revenue	**19,667**	**42,244**	**62,366**
– Operating services	7,521	10,391	12,482
– Construction service	12,146	31,040	47,972
– Finance income	–	813	1,912
Cost of sales by segment	(15,084)	(37,565)	(59,074)
Segment gross profit	**4,583**	**4,679**	**3,292**
Segment operating profit	**1,634**	**1,241**	**(468)**

Others segment

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Segment revenue	**34,974**	**80,197**	**86,653**
– Management services	26,549	74,557	75,941
– Others	8,425	5,640	10,712
Cost of sales by segment	(34,476)	(50,102)	(51,402)
Segment gross profit	**498**	**30,095**	**35,251**
Segment operating profit	**735**	**30,186**	**35,860**

The following table set out our revenue, gross profit and gross profit margin by project models and nature of the revenue:

By project models	Year ended December 31, 2014	2015	2016
TOO			
Revenue (RMB'000)	669,427	657,358	704,136
Gross profit (RMB'000)	360,899	335,820	361,338
Gross profit margin (%)	53.9%	51.1%	51.3%
TOT			
Revenue (RMB'000)	6,295	18,297	49,977
Gross profit (RMB'000)	4,764	12,225	28,892
Gross profit margin (%)	75.7%	66.8%	57.8%
BOT			
Revenue (RMB'000)	11,761	55,022	58,687
Gross profit (RMB'000)	–	–	–
Gross profit margin (%)	0.0%	0.0%	0.0%
BT			
Revenue (RMB'000)	12,768	14,233	15,472
Gross profit (RMB'000)	(806)	–	–
Gross profit margin (%)	(6.3%)	0.0%	0.0%

By nature	Year ended December 31, 2014	2015	2016
Operation services	672,825	668,297	737,926
Construction services	24,529	69,255	74,159
Finance income	2,897	7,358	16,187
Total revenue of wastewater treatment and other water related services	700,251	744,910	828,272
Gross profit (RMB'000)	364,857	348,045	390,230
Gross profit margin (%)	52.1%	46.7%	47.1%

The year ended December 31, 2016 compared to the year ended December 31, 2015

Revenue

Our revenue increased by RMB89.8 million, or 10.9%, to RMB914.9 million for the year ended December 31, 2016, from RMB825.1 million for the year ended December 31, 2015, primarily due to an increase in revenue from our wastewater treatment, other water-related service segment and others segments.

- Our wastewater treatment segment revenue increased by RMB63.2 million, or 9.0%, to RMB765.9 million for the year ended December 31, 2016, from RMB702.7 million for the year ended December 31, 2015, primarily due to increased wastewater treatment income contributed by new wastewater treatment plants acquired since December 31, 2015, partially offset by the full-year impact of value-added tax imposed since July 2015, and decreased construction revenue resulting from the different construction stages of our Yiliang County No. 2 Wastewater Treatment Plant between the two periods.

- Our other water-related services segment revenue increased by RMB20.1 million, or 47.9%, to RMB62.4 million for the year ended December 31, 2016, from RMB42.2 million for the year ended December 31, 2015, primarily due to an increase in revenue from construction service, and revenues from the Malong No. 1 Running Water Plant and the Malong Dongguang Water Plant, which we acquired in July 2015 and consolidated into our financial results in August 2015, and Shidian County No. 2 Running Water Supply Plant, which began trial production in July 2016, partially offset by the decrease in operating revenues from reclaimed water supply business resulting from the full-year impact of value-added tax imposed since July 2015.

- Our others segment revenue increased by RMB6.5 million, or 8.1%, to RMB86.7 million for the year ended December 31, 2016, from RMB80.2 million for the year ended December 31, 2015, primarily due to revenue contribution from Kunming Heertai Environmental Industry & Trade Co. Ltd., which we acquired in December 2015, the full-year impact of management services fees for managing the Kunming Nos. 9, 10 and 11 Water Purification Plants on behalf of our Controlling Shareholder since the latter half of 2015, the management services fees for the management of Haikou Water Purification Plant, Baiyukou Water Purification Plant, Baiyuhe Water Purification Plant, Luolonghe Water Purification Plant, Dianyuanzhen Water Purification Plant, Aziying Water Purification Plant, Yunlong Water Purification Plant and Sayingpan Water Purification Plant on behalf of our Controlling Shareholder since August 1, 2016, and revenues arising from other miscellaneous activities such as sludge transportation and water quality testing partially offset by a decrease in revenue from management services resulting from the termination of our management services performed for the Kunyang, Gucheng and Yunihe Water Purification Plants and the Luolonghe and Laoyuhe Wastewater Treatment Plants, which commenced commercial operations in January 2016 and whose revenues were thereafter recognized in operation revenues from wastewater treatment segment.

Cost of sales

Our cost of sales increased by RMB42.4 million, or 9.5%, to RMB489.4 million for the year ended December 31, 2016, from RMB447.0 million for the year ended December 31, 2015, primarily due to an increase in cost of sales from our wastewater treatment, other water-related service segment and other segments.

- Our cost of sales for the wastewater treatment segment increased by RMB19.7 million, or 5.5%, to RMB379.0 million for the year ended December 31, 2016, from RMB359.3 million for the year ended December 31, 2015, primarily due to increased material costs resulting from our initiatives to further improve our effluent quality and increased employee and labor costs related to our expanded business resulting from our acquisition activities, partially offset by our decreased utility costs resulting from a reduction in electricity tariff and decreased construction costs resulting from the completion of the main body construction of our Yiliang County No. 2 Wastewater Treatment Plant.

- Our cost of sales for other water-related services segment increased by RMB21.5 million, or 57.2%, to RMB59.1 million for the year ended December 31, 2016, from RMB37.6 million for the year ended December 31, 2015, primarily due to the increase in the costs of construction service and in materials, labor and other costs relating to our new running water supply business, which started in July 2015.

- Our cost of sales for others segment increased by RMB1.3 million, or 2.6%, to RMB51.4 million for the year ended December 31, 2016, from RMB50.1 million for the year ended December 31, 2015, primarily due to increased costs relating to the management services undertaken for the Kunming Nos. 9, 10 and 11 Water Purification Plants, Haikou Water Purification Plant, Baiyukou Water Purification Plant, Baiyuhe Water Purification Plant, Luolonghe Water Purification Plant, Dianyuanzhen Water Purification Plant, Aziying Water Purification Plant, Yunlong Water Purification Plant and Sayingpan Water Purification Plant, increased materials costs relating to our water effluent quality improvement initiatives, costs relating to the water treatment chemicals production business of Kunming Heertai Environmental Industry & Trade Co. Ltd., which we acquired in December 2015, and increased business tax and levies resulting from value-added tax imposed since July 2015, partially offset by a decrease in costs relating to the termination of our management services performed for the Kunyang, Gucheng, Yunihe Water Purification Plants and the Luolonghe and Laoyuhe Wastewater Treatment Plants.

Gross profit and gross margin

Our gross profit increased by RMB47.3 million, or 12.5%, to RMB425.5 million for the year ended December 31, 2016, from RMB378.1 million for the year ended December 31, 2015, primarily due to a RMB11.6 million increase in profit from our wastewater treatment segment and a RMB5.1 million increase in profit from our other segment partially offset by a RMB2.5 million decrease in profit from our other water-related service segment.

Our gross margin increased to 46.5% for the year ended December 31, 2016 from 45.8% for the year ended December 31, 2015, primarily due to increases in gross margins of the wastewater treatment and other segments, partially offset by a decrease in gross margin of the other water-related service segment.

- Our gross profit for the wastewater treatment segment increased by RMB43.5 million, or 12.7%, to RMB386.9 million for the year ended December 31, 2016, from RMB343.4 million for the year ended December 31, 2015. Our segment gross margin increased to 50.7% for the year ended December 31, 2016 from 48.9% for the year ended December 31, 2015, primarily due to the commencement of commercial operations of the Kunyang, Gucheng and Yunihe Water Purification Plants and the Luolonghe and Laoyuhe Wastewater Treatment Plants. These plants had high gross margins because they received tariffs for the government guaranteed minimum volume but incurred low utility costs including electricity fees as the actual volume of wastewater treated was lower. The increase in our gross profit and gross margin was partially offset by the full-year impact of value-added tax imposed since July 2015, which resulted in less revenue for a given volume of wastewater treated but the cost of treatment would remain the same.

- Our gross profit for other water-related services segment decreased by RMB1.4 million, or 29.8%, to RMB3.3 million for the year ended December 31, 2016, from RMB4.7 million for the year ended December 31, 2015. Our segment gross margin decreased to 5.3% for the year ended December 31, 2016, from 11.1% for the year ended December 31, 2015. The decrease was primarily due to the increased proportion of construction revenue, which yielded low gross margin and thereby decreased the overall segment gross margin. The segment gross margin for our operational services was also negatively affected by the full-year impact of value-added tax imposed since July 2015 on reclaimed water business.

- Our gross profit for the others segment increased by RMB5.2 million, or 17.3%, to RMB35.3 million for the year ended December 31, 2016, from RMB30.1 million for the year ended December 31, 2015. Our segment gross margin increased to 40.6% for the year ended December 31, 2016, from 37.5% for the year ended December 31, 2015, primarily due to the high margin of management services which we began to provide to Haikou Water Purification Plant, Baiyukou Water Purification Plant, Baiyuhe Water Purification Plant, Luolonghe Water Purification Plant, Dianyuanzhen Water Purification Plant, Aziying Water Purification Plant, Yunlong

Water Purification Plant and Sayingpan Water Purification Plant on behalf of our Controlling Shareholder since August 1, 2016, partially offset by the decrease in revenue resulting from the full-year impact of value-added tax imposed since July 2015, and the lower profit relating to the water treatment chemicals production business of Kunming Heertai Environmental Industry & Trade Co. Ltd., which we acquired in December 2015.

Selling expenses

Our selling expenses increased by RMB1.1 million, or 11.6%, to RMB10.6 million for the year ended December 31, 2016, from RMB9.5 million for the year ended December 31, 2015, primarily as a result of the commencement of commercial operations of the Luolonghe and Laoyuhe Wastewater Treatment Plants in January 1, 2016, which increased our revenue from public procurement and therefore increased the attendant 3% commission charge paid to the running water supplier who collected the wastewater treatment tariff from the running water end users for us.

Administrative expenses

Our administrative expenses increased by RMB27.7 million, or 39.7%, to RMB97.6 million for the year ended December 31, 2016, from RMB69.9 million for the year ended December 31, 2015, primarily due to increases in professional expenses, employee benefit expenses and office expenditures associated with our acquisition activities.

Research and development expenses

Our research and development expenses decreased by RMB18.7 million, or 71.7%, to RMB7.4 million for the year ended December 31, 2016, from RMB26.1 million for the year ended December 31, 2015, primarily due to the conclusion of research projects we previously undertook and the time gap before the undertaking of research projects under the 13th Five-year Plan, which are expected to kick off in 2018.

Other income

Our other income increased by RMB39.8 million, or 94.1%, to RMB82.0 million for the year ended December 31, 2016, from RMB42.3 million for the year ended December 31, 2015, primarily due to an increase in refund of value-added tax resulting from the value-added tax imposed in July 2015 and its refund policies, and increased government grants we received relating to our R&D activities.

Other losses

Our other losses decreased by RMB1.5 million, or 53.6%, to RMB1.3 million for the year ended December 31, 2016, from RMB2.8 million for the year ended December 31, 2015, primarily due to a RMB2.4 million gain on disposal of land use right as a result of the local government's requisition of land for road construction.

Operating profit

As a result of the foregoing factors, our operating profit increased by RMB78.4 million, or 25.1%, to RMB390.6 million for the year ended December 31, 2016, from RMB312.2 million for the year ended December 31, 2015. Our operating margins for the year ended December 31, 2016 and 2015 were 42.7% and 37.8%, respectively.

Finance income

Our finance income decreased by RMB3.3 million, or 16.5%, to RMB16.7 million for the year ended December 31, 2016, from RMB20.0 million for the year ended December 31, 2015, primarily because the decrease in interest income from prepayments made for acquisition of projects.

Finance costs

Our finance costs increased by RMB16.2 million, or 25.3%, to RMB80.3 million for the year ended December 31, 2016, from RMB64.1 million for the year ended December 31, 2015, primarily due to a RMB16.2 million, or 25.3%, increase in net interest expense on borrowings, primarily as a result of our issuance in the PRC of corporate bonds in the principal amount of RMB700.0 million on December 25, 2015. The weighted average effective interest rates of our borrowings for the year ended December 31, 2016 and the year ended December 31, 2015 were 4.78% and 5.48%, respectively.

Profit before income tax

As a result of the foregoing factors, our profit before income tax increased by RMB59.2 million, or 22.1%, to RMB326.9 million for the year ended December 31, 2016 from RMB267.7 million for the year ended December 31, 2015.

Income tax

We incurred income tax expenses of RMB51.2 million for the year ended December 31, 2016 and RMB30.1 million for the year ended December 31, 2015 at effective tax rates of 15.7% and 11.3%, respectively. Our effective tax rates increased due to the expiration of preferential tax treatments of some of our wastewater treatment facilities and our acquisition of subsidiaries which did not qualify for the 15% preferential enterprise income tax rate of the "Developing Western China Policy" and were subject to the full 25% enterprise income tax rate.

Total comprehensive income

As a result of the foregoing factors, our total comprehensive income increased by RMB37.4 million, or 15.7%, to RMB275.0 million for the year ended December 31, 2016, from RMB237.6 million for the year ended December 31, 2015.

Year ended December 31, 2015 compared to year ended December 31, 2014

Revenue

Our revenue increased by RMB89.9 million, or 12.2%, to RMB825.1 million for the year ended December 31, 2015, from RMB735.2 million for the year ended December 31, 2014, primarily due to increases in revenue from our wastewater treatment, other water-related services and others segments.

- Our wastewater treatment segment revenue increased by RMB22.1 million, or 3.2%, to RMB702.7 million for the year ended December 31, 2015, from RMB680.6 million for the year ended December 31, 2014, primarily due to heavy rainfall levels that led to an increased wastewater treatment volume, the construction of Yiliang County No. 2 Wastewater Treatment Plant and increased wastewater treatment volume due to the acquisition of Malong, Yiliang, Fanchang Suncun, Suijiang and Zhuji Wastewater Treatment Plants, partially offset by a decrease in revenue resulting from the newly-imposed value-added tax.

- Our other water-related services segment revenue increased by RMB22.5 million, or 114.2%, to RMB42.2 million for the year ended December 31, 2015, from RMB19.7 million for the year ended December 31, 2014, primarily due to construction revenues recognized from our building of Shidian County No. 2 Running Water Supply Plant and operating revenues from the newly acquired Malong No. 1 Running Water Plant and Malong Dongguang Water Plant and our growing reclaimed water business, partially offset by the completion of construction of Fumin Industrial Park Running Water Supply Plant (富民工業園區自來水廠) and its associated pipelines under the BT model.

- Our others segment revenue increased by RMB45.2 million, or 129.1%, to RMB80.2 million for the year ended December 31, 2015, from RMB35.0 million for the year ended December 31, 2014, primarily due to a RMB48.0 million, or 180.8%, increase in revenue from management services, which primarily comprised the services we performed for the Kunming Nos. 9 and 10 Water Purification Plants on behalf of our Controlling Shareholder.

Cost of sales

Our cost of sales increased by RMB77.1 million, or 20.8%, to RMB447.0 million for the year ended December 31, 2015, from RMB369.9 million for the year ended December 31, 2014, primarily due to increases in cost of sales from our wastewater treatment and other water-related services segments.

- Our cost of sales for the wastewater treatment segment increased by RMB39.0 million, or 12.2%, to RMB359.3 million for the year ended December 31, 2015, from RMB320.3 million for the year ended December 31, 2014, primarily due to the construction of Yiliang County No. 2 Wastewater Treatment Plant and the increased utility and electricity costs associated with an increased wastewater treatment volume.

- Our cost of sales for other water-related services segment increased by RMB22.5 million, or 149.0%, to RMB37.6 million for the year ended December 31, 2015, from RMB15.1 million for the year ended December 31, 2014, primarily due to the construction of Shidian County No. 2 Running Water Supply Plant, partially offset by the completion of construction of Fumin Industrial Park Running Water Supply Plant.

- Our cost of sales for others segment increased by RMB15.6 million, or 45.2%, to RMB50.1 million for the year ended December 31, 2015, from RMB34.5 million for the year ended December 31, 2014, primarily due to costs related to management services, which comprised the services we performed for the Kunming Nos. 9 and 10 Water Purification Plants.

Gross profit and gross margin

Our gross profit increased by RMB12.7 million, or 3.5%, to RMB378.1 million for the year ended December 31, 2015, from RMB365.4 million for the year ended December 31, 2014, primarily due to a RMB29.6 million increase in profit from our others segment, partially offset by a RMB16.9 million decrease in profit from our wastewater treatment segment and the newly-imposed value-added tax.

Our gross margin decreased to 45.8% for the year ended December 31, 2015 from 49.7% for the year ended December 31, 2014, primarily due to decreases in gross margins of the wastewater treatment and other water-related services segments, offset by an increase in gross margin of the others segment.

- Our gross profit for the wastewater treatment segment decreased by RMB16.9 million, or 4.7%, to RMB343.4 million for the year ended December 31, 2015, from RMB360.3 million for the year ended December 31, 2014. Our segment gross margin decreased to 48.9% for the year ended December 31, 2015 from 52.9% for the year ended December 31, 2014, primarily because our revenue was reduced by RMB51.6

million as a result of the newly imposed value-added tax, while the corresponding 70% tax refund was reflected in other income instead of revenue. Our segment gross margin was also diluted by the increased proportion of construction revenues generated from the BOT projects we undertook, because from an accounting prospective, the construction revenues from such projects were recognized on a cost basis, yielding essentially zero margin for our construction services. In comparison, the segment gross margin for our operational services was 51.2% for the year ended December 31, 2015, as compared to 53.7% for the year ended December 31, 2014.

- Our gross profit for other water-related services segment increased by RMB0.1 million, or 2.2%, to RMB4.7 million for the year ended December 31, 2015, from RMB4.6 million for the year ended December 31, 2014. Our segment gross margin decreased to 11.1% for the year ended December 31, 2015, from 23.3% for the year ended December 31, 2014, primarily due to the increased proportion of construction revenues generated from the projects we undertook, because those construction revenues were recognized with low gross margin and thereby diluted the segment gross margin. Meanwhile the segment gross margin for our operational services was 37.2% for the year ended December 31, 2015, as compared to 71.7% for the year ended December 31, 2014, primarily due to depreciation of our pipeline and heavy rainfall which caused collapses of certain roadbed in parts of Kunming, leading to significantly increased costs in pipeline maintenance and repair that further depressed our segment gross margin.

- Our gross profit for others segment increased by RMB29.6 million, or 5,920.0%, to RMB30.1 million for the year ended December 31, 2015, from RMB0.5 million for the year ended December 31, 2014. Our segment gross margin increased to 37.5% for the year ended December 31, 2015, from 1.4% for the year ended December 31, 2014, primarily due to an increase in the number of contracts we entered into for our management services that provided higher margins than our previous contracts because most of our plants under management had completed construction and entered into trial operation.

Selling expenses

Our selling expenses increased by RMB1.3 million, or 15.9%, to RMB9.5 million for the year ended December 31, 2015, from RMB8.2 million for the year ended December 31, 2014, primarily due to an increase in employee benefit expenses as a result of our business expansion.

Administrative expenses

Our administrative expenses increased by RMB20.9 million, or 42.7%, to RMB69.9 million for the year ended December 31, 2015, from RMB49.0 million for the year ended December 31, 2014, primarily due to increases in professional expenses and employee benefit expenses associated with our acquisition activities and listing expenses relating to the Global Offering.

Research and development expenses

Our research and development expenses increased by RMB22.2 million, or 569.2%, to RMB26.1 million for the year ended December 31, 2015, from RMB3.9 million for the year ended December 31, 2014, primarily due to increased material and labor costs as a result of our entering into partnerships with HKF Technology L.L.C of the USA and LAVARIS Technologies GmbH on the R&D of technologies related to wastewater treatment and environmental protection in general during the year ended December 31, 2015.

Other income

Our other income increased by RMB34.4 million, or 435.4%, to RMB42.3 million for the year ended December 31, 2015, from RMB7.9 million for the year ended December 31, 2014, primarily due to a RMB34.5 million, or 818.8%, increase in government grants. We received increased government grants in the year ended December 31, 2015 as compared to the year ended December 31, 2014, primarily due to the newly introduced value-added tax refund since July 1, 2015.

Other losses

Our other losses decreased by RMB1.7 million, or 37.8%, to RMB2.8 million for the year ended December 31, 2015, from RMB4.5 million for the year ended December 31, 2014, primarily due to a RMB1.3 million, or 30.8%, decrease in losses on disposal of property, plant and equipment.

Operating profit

As a result of the foregoing factors, our operating profit increased by RMB4.6 million, or 1.5%, to RMB312.2 million for the year ended December 31, 2015, from RMB307.6 million for the year ended December 31, 2014. Our operating margins for the years ended December 31, 2015 and 2014 were 37.8% and 41.8%, respectively.

Finance income

Our finance income decreased by RMB6.5 million, or 24.5%, to RMB20.0 million for the year ended December 31, 2015, from RMB26.5 million for the year ended December 31, 2014, primarily due to a RMB3.8 million, or 18.7%, decrease in interest income charged to related parties and a RMB3.4 million, or 69.0%, decrease in interest income from term deposits. Interest income charged to related parties decreased primarily due to our Controlling Shareholder's payment of outstanding loan balance that in turn decreased interest income, partially offset by an increase in interest payment arising from our loans granted to Xindu Investment in relation to the purchase of certain wastewater treatment plants.

Finance costs

Our finance costs increased by RMB8.8 million, or 15.9%, to RMB64.1 million for the year ended December 31, 2015, from RMB55.3 million for the year ended December 31, 2014, primarily due to a RMB8.7 million, or 15.8%, increase in net interest expense on borrowings as a result of our increased borrowings. The weighted average effective interest rates of our borrowings for the years ended December 31, 2015 and 2014 were 6.53% and 7.19%, respectively.

Profit before income tax

As a result of the foregoing factors, our profit before income tax decreased by RMB10.2 million, or 3.7%, to RMB267.7 million for the year ended December 31, 2015 from RMB277.9 million for the year ended December 31, 2014.

Income tax

We incurred income tax expenses of RMB30.1 million for the year ended December 31, 2015 and RMB32.4 million for the year ended December 31, 2014 at effective tax rates of 11.3% and 11.7%, respectively. Our effective tax rates increased due to the acquisition of new plants, some of which were subject to a 25% enterprise income tax rate, that increased our overall effective tax rate.

Total comprehensive income

As a result of the foregoing factors, our total comprehensive income decreased by RMB7.9 million, or 3.2%, to RMB237.6 million for the year ended December 31, 2015, from RMB245.5 million for the year ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for investing in, constructing, operating and maintaining our wastewater treatment and water supply facilities. To date, we have funded our investments and operations principally with bank loans, cash generated from our operations, equity contributions and issuance of debt instruments. We believe that our liquidity requirements will be satisfied through a combination of cash flows generated from our operating activities, bank loans and other borrowings, and the net proceeds from this Global Offering. Any significant decrease in the demand for, or pricing of, our products and services, or a significant decrease in the availability of bank loans, may adversely impact on our liquidity.

The following table sets out our cash flows for the periods indicated:

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(61,092)**	**1,006,988**	**56,649**
Net cash used in investing activities	**(365,396)**	**(653,515)**	**(238,304)**
Net cash generated from/(used in) financing activities	**163,910**	**431,829**	**(459,048)**
Net (decrease)/increase in cash and cash equivalents	**(262,578)**	**785,302**	**(640,703)**
Cash and cash equivalents at beginning of the year	**564,809**	**302,231**	**1,807,533**
Cash and cash equivalents at end of the year	**302,231**	**1,087,533**	**446,830**

Net cash flows generated from/used in operating activities

Our net cash generated from operating activities primarily consists of cash received from our clients for services and products provided by us. We also use cash in our operations for the purchase of raw materials and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits, and payments of interest and income tax.

For the year ended December 31, 2016, our net cash generated from operating activities was RMB56.6 million, primarily comprising cash generated from operations amounting to RMB145.8 million, partially offset by income tax paid amounting to RMB62.7 million and interest paid amounting to RMB26.4 million.

For the year ended December 31, 2015, our net cash generated from operating activities was RMB1,007.0 million, primarily comprising cash generated from operations amounting to RMB1,078.1 million, which included payment made for some of our wastewater treatment fees recognized but not collected in 2014 and advance payments of our wastewater treatment fees for the first quarter of 2016, partially offset by interest paid amounting to RMB40.0 million and income tax paid amounting to RMB31.1 million.

For the year ended December 31, 2014, our net cash used in operating activities was RMB61.1 million, primarily comprising interest paid amounting to RMB19.4 million, income tax paid amounting to RMB36.1 million and cash used in operations amounting to RMB5.6 million. We recorded net operating cash outflow primarily due to the late collection of some of our wastewater treatment fees, which was mostly collected in 2015.

Net cash used in investing activities

Our net cash used in investing activities has principally been used to purchase property, plant and equipment and equity interests in subsidiaries and associates.

For the year ended December 31, 2016, our net cash used in investing activities was RMB238.3 million, primarily comprising purchase of property, plant and equipment amounting to RMB99.8 million, acquisition of subsidiaries amounting to RMB99.7 million, and government grants returned amounting to RMB22.0 million as a result of the termination of a proposed sludge treatment project.

For the year ended December 31, 2015, our net cash used in investing activities was RMB653.5 million, primarily comprising purchase of property, plant and equipment amounting to RMB603.2 million, acquisition of subsidiaries, amounting to RMB150.2 million and funds granted to related parties amounting to RMB60.6 million, partially offset by funds repaid by related parties amounting to RMB68.3 million, net withdrawal of term deposits amounting to RMB25.0 million, interest received amounting to RMB1.5 million, and government grants relating to purchase of property, plant and equipment amounting to RMB74.1 million.

For the year ended December 31, 2014, our net cash used in investing activities was RMB365.4 million, primarily comprising purchase of property, plant and equipment amounting to RMB170.0 million, acquisition of subsidiaries amounting to RMB45.5 million, acquisition of associates amounting to RMB14.5 million, net increase in term deposits amounting to RMB25.0 million, and funds granted to related parties amounting to RMB678.4 million, partially offset by funds repayments received from related parties amounting to RMB549.4 million, interest received amounting to RMB18.6 million, and government grants relating to purchase of intangible assets amounting to RMB1.9 million.

Net cash generated from financing activities

Our net cash generated from financing activities primarily represents capital contributions from our Shareholders and proceeds from borrowings.

For the year ended December 31, 2016, our net cash used in financing activities was RMB459.0 million, primarily comprising repayments of borrowings amounting to RMB827.2 million, partially offset by proceeds from borrowings amounting to RMB380.5 million.

For the year ended December 31, 2015, our net cash generated from financing activities was RMB431.8 million, primarily comprising proceeds from borrowings amounting to RMB1,672.7 million, partially offset by repayments of borrowings amounting to RMB888.3 million, the payment of dividends to our Shareholders amounting to RMB252.0 million and payment to our Controlling Shareholder for the acquisition of wastewater treatment business amounting to RMB94.1 million.

For the year ended December 31, 2014, our net cash generated from financing activities was RMB163.9 million, primarily comprising proceeds from borrowings amounting to RMB750.0 million, partially offset by repayments of borrowings amounting to RMB530.0 million and payment to our Controlling Shareholder for the acquisition of wastewater treatment business amounting to RMB56.1 million.

WORKING CAPITAL

The table below presents our current assets and current liabilities as at the dates indicated:

	As of December 31,			As of January 31,
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets				
Receivables under service concession arrangements	4,160	6,132	9,679	13,467
Inventories	6,422	6,605	10,336	10,038
Amount due from customers for construction contracts	5,940	6,104	5,716	7,716
Trade and other receivables	817,660	189,762	306,895	333,997
Term deposits with initial term of over three months	25,000	–	–	–
Cash and cash equivalents	302,231	1,087,533	446,830	270,406
Total current assets	**1,161,413**	**1,296,136**	**779,456**	**635,624**
Current liabilities				
Trade and other payables	235,196	550,048	422,339	364,277
Current income tax liabilities	19,065	24,887	44,568	37,674
Borrowings	854,028	780,213	778,737	773,825
Total current liabilities	**1,108,289**	**1,355,148**	**1,245,644**	**1,175,776**
Net current assets/ (liabilities)	**53,124**	**(59,012)**	**(466,188)**	**(540,152)**

Directors' statements on our liquidity and cash flow position

We recorded net current liabilities of RMB540.2 million as of January 31, 2017, RMB466.2 million as of December 31, 2016 and RMB59.0 million as of December 31, 2015, respectively. The increase in net current liabilities was mainly attributable to a decrease in current assets as a result of cash repayment of borrowings, and an increase in current liabilities as a result of certain long-term borrowings falling due within one year in 2016. We recorded net current assets of RMB53.1 million as of December 31, 2014. Our net current liabilities positions during the Track Record Period were mainly attributed to borrowings and trade and other payables for the relevant periods. These items primarily reflected the amount of short-term financings we obtained to support our construction projects and acquisition activities. We intend to reduce our holding of short-term indebtedness and replace our short-term borrowings with long-term borrowings. In 2015, we replaced short-term debts amounting to RMB300.0 million with long-term loans and offered corporate bonds amounting to RMB700.0 million.

Despite our increases in capital expenditures and our net current liability position, we have not experienced any financial difficulty with respect to our cash flows during the Track Record Period for the following reasons:

- We have maintained long-term relationships with financial institutions from whom we are able to obtain banking facilities on competitive terms to fund our business expansions. As of January 31, 2017, we had unutilized banking facilities of RMB740.0 million based on definitive bank facility documentation. Such an amount is approximately RMB199.8 million over our net current liability as of January 31, 2017 and would be sufficient to meet our short-term capital needs.

- Because our relatively low debt to asset ratio and strong credit history have been recognized by various PRC financial institutions, we have easy access to credit providers. During the Track Record Period, we had not experienced any material difficulty in renewing our short-term loans from our principal banks upon maturity of our existing term loans. We believe that we will be able to roll over our existing short-term loans upon their maturity, if necessary, based on our repayment and credit history.

- We issued corporate bonds of approximately RMB700.0 million for a term of seven years with an annual interest rate at 4.35% on December 25, 2015 in the PRC. This bond issuance further testifies to the market's confidence in our business operations.

- Although our operating cash flow has fluctuated during the Track Record Period, overall our net cash generated from operating activities has been increasing and we expect our cash flow from our existing and future projects to remain steady in the future, as most of our income comes from government concession contracts backed by public finance with low risk of substantive default.

Our Directors confirm that there has not been any material default on our part in the payment of trade and other payables or bank and other borrowings, nor has there been any breach of financial deeds by us during the track record period.

Taking into account the financial resources available to us, including our available banking facilities, uncommitted facilities supported by letters of intent issued by the underlying banks, our existing cash resources, the expected cash generated from operating activities and the estimated net proceeds from the Global Offering, our Directors confirm, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

Receivables under service concession arrangements

We accrue receivables under service concession arrangements throughout a concession period. Our receivables under service concession arrangements refer to the outstanding receivables arising from our construction services (for BOT projects) or acquisition considerations (for TOT projects), adjusted by operation services and finance income after deducting the tariff payments accrued throughout a concession period. Under our BOT and TOT agreements, the amount of receivables under service concession arrangements will be settled by tariff payments to be received during the operation phases of our BOT and TOT projects. The portion of the receivables under service concession arrangements due within 12 months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder are classified as non-current assets.

Our receivables under service concession arrangements that were classified as current assets amounted to RMB4.2 million, RMB6.1 million and RMB9.7 million as of December 31, 2014, 2015 and 2016, respectively. This represented a year-to-year increase of 45.2% between 2014 and 2015 and a year-to-year increase of 59.0% between 2015 and 2016, in each case primarily due to an increase in the number of service concession projects we undertook.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB57.5 million, RMB243.9 million and RMB341.9 million as of December 31, 2014, 2015 and 2016, respectively. This represented a year-to-year increase of 324.2% between 2014 and 2015 and a year-to-year increase of 40.2% between 2015 and 2016, in each case primarily due to an increase in the number of service concession projects we undertook.

Inventories

	As of December 31,		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Materials for sewage and water distribution services · · · · · · · · · · · · · ·	1,425	1,835	4,245
Spare parts ·	4,997	4,770	6,091
	6,422	6,605	10,336

Our total inventory balance increased by RMB3.7 million, or 56.1%, to RMB10.3 million as of December 31, 2016 from RMB6.6 million as of December 31, 2015. Such an increase reflected an increase in materials for sewage and water distribution services by RMB2.4 million, or 133.3%, to RMB4.2 million as of December 31, 2016 from RMB1.8 million as of December 31, 2015 and an increase in spare parts by RMB1.3 million, or 27.1%, to RMB6.1 million as of December 31, 2016 from RMB4.8 million as of December 31, 2015.

Our total inventory balance increased by RMB0.2 million, or 3.1%, to RMB6.6 million as of December 31, 2015 from RMB6.4 million as of December 31, 2014. Such an increase reflected an decrease in spare parts by RMB0.2 million, or 4.0%, to RMB4.8 million as of December 31, 2015 from RMB5.0 million as of December 31, 2014, and an increase in materials for sewage and water distribution services by RMB0.4 million, or 28.6%, to RMB1.8 million as of December 31, 2015 from RMB1.4 million as of December 31, 2014. The total inventory balance remained relatively stable between 2014 and 2015 because we have only kept an amount of inventories necessary for our immediate operational needs.

The following table sets out our inventory turnover days for the periods indicated:

	For the year ended December 31,		
	2014	2015	2016
	Days	Days	Days
Inventory turnover days[1]	6.3	5.3	6.3

Note:

(1) Calculated as the average inventories for the relevant period divided by the cost of sales recognized as cost of sales for the relevant period, multiplied by 365 days. The arithmetic mean of the opening and closing balances of inventory is used for the years ended December 31, 2014, 2015 and 2016.

The decrease in our inventory turnover days from 2014 to 2015 was primarily due to the increased treatment volume of our water plants and the stability of our total inventory balance. Inventory turnover days remained stable in 2016.

Amounts due from customers for construction contracts

During the Track Record Period, our amounts due from customers for construction contracts consisted of revenue from the portion of our BT projects that had been completed but not yet settled. Due to the accounting treatment of BOT projects, while we recognize construction revenue for the BOT projects, we actually do not receive any payment from the local governments for our construction services. The actual cash inflow for our construction revenue from our BOT projects is only received in the form of cash tariff payments during the operational phase of the relevant BOT projects over the stipulated concession periods, and it may take up to 30 years to settle the mismatch. Please see the section headed "— Factors Affecting Our Results of Operations and Financial Condition — Project portfolio and business model mix" in this prospectus.

Our amounts due from customers for construction contracts increased by RMB6.7 million, or 19.4%, to RMB41.3 million as of December 31, 2016 from RMB34.6 million as of December 31, 2015, primarily due to the ongoing construction of Yiliang No. 2 Wastewater Treatment Plant's pipeline network and other pipeline projects.

Our amounts due from customers for construction contracts increased by RMB8.8 million, or 34.1%, to RMB34.6 million as of December 31, 2015 from RMB25.8 million as of December 31, 2014, primarily due to the ongoing construction of Yiliang No. 2 Wastewater Treatment Plant's pipeline network, Fumin Industrial Park Running Water Supply Plant and other pipeline projects.

Trade and other receivables

Our trade and other receivables primarily consist of (i) trade receivables from third parties, related parties and local governments; (ii) other receivables from third parties, related parties; and (iii) prepayments. Our trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business, including services performed for TOO and TOT projects and performed during the operation period of BOO and BOT projects. Our other receivables primarily consist of loan granted to and interest receivable from related parties, and VAT refund which is yet received. Our prepayments primarily consist of listing expenses related to the Global Offering. The following table shows the breakdown of our consolidated trade and other receivables as of the dates indicated:

	As of December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade receivables:			
– Third parties	214	439	941
– Related parties	27,899	87,728	39,678
– Local government	585,256	9,417	85,381
Net trade receivables	**613,369**	**97,584**	**126,000**
Other receivables:			
– Third parties	1,988	25,313	6,539
– Related parties	201,078	24,020	39,472
– Hongzetianying Water Treatment Co., Ltd. (洪澤天楹水處理有限責任公司, "Hongze Water")	–	–	41,725
– Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "Qutang Water")	–	–	3,744
– Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "Libao Water")	–	–	2,279
– Local government	–	27,535	51,590
Net other receivables	**203,066**	**76,868**	**145,349**
Prepayments:			
– Listing expenses	–	13,521	28,946
– Others	1,225	1,789	6,600
Net prepayments	**1,225**	**15,310**	**35,546**
Net trade and other receivables	**817,660**	**189,762**	**306,895**

Our net trade and other receivables increased by RMB117.1 million, or 61.7%, to RMB306.9 million as of December 31, 2016 from RMB189.8 million as of December 31, 2015. The increase reflected (i) other receivables due from Hongze Water, Qutang Water and Libao Water amounting to RMB47.7 million as of December 31, 2016 (mainly reflecting prepayments in connection with the Nantong Project); (ii) an increase in trade receivables due from local government by RMB76.0 million, or 808.5%, to RMB85.4 million as of December 31, 2016 from RMB9.4 million as of December 31, 2015, primarily due to wastewater treatment fees charged in December 2016, which had been recognized but not yet paid by the relevant government authorities; (iii) an increase in other receivables due from local government by RMB24.1 million, or 87.6%, to RMB51.6 million as of December 31, 2016 from RMB27.5 million as of December 31, 2015, primarily due to an increase in tax refund receivables resulting from the imposition of value-added tax since July 2015; and (iv) an increase in the prepayment of listing expenses by RMB15.4 million, or 114.1%, to RMB28.9 million as of December 31, 2016 from RMB13.5 million as of December 31, 2015.

Our net trade and other receivables decreased by RMB627.9 million, or 76.8%, to RMB189.8 million as of December 31, 2015 from RMB817.7 million as of December 31, 2014. Such a decrease reflected a decrease in trade receivables from local government by RMB575.9 million, or 98.4%, to RMB9.4 million as of December 31, 2015 from RMB585.3 million as of December 31, 2014, primarily due to our collection of the wastewater treatment fees paid by the Kunming government and a decrease in other receivables from related parties by RMB177.1 million, or 88.1%, to RMB24.0 million as of December 31, 2015 from RMB201.1 million as of December 31, 2014, primarily due to the settlement of receivable with Xindu Investment relating to the purchase of Luolonghe and Laoyuhe Wastewater Treatment Plants, partially offset by an increase in trade receivables from related parties by RMB59.8 million, or 214.3%, to RMB87.7 million as of December 31, 2015 from RMB27.9 million as of December 31, 2014, primarily due to an increase in management services performed for the Controlling Shareholder, and an increase in other receivables from third parties by RMB50.8 million, or 2,540.0%, to RMB52.8 million as of December 31, 2015 from RMB2.0 million as of December 31, 2014, primarily due to value-added tax refund that was recognized but not yet received.

The aging analysis of trade receivables of our Group is as follow:

	As of December 31,		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
– Within one year	464,324	95,502	125,542
– Over one year and within two years	149,045	2,082	458
	613,369	97,584	126,000

Based on past experience, the directors of our Group believe that no impairment allowance of trade receivables is necessary because the customers are mainly local government authorities and there has not been a significant change in their credit quality. Accordingly, these balances are considered fully recoverable.

The following table sets out our receivable turnover days for the periods indicated:

	As of December 31,		
	2014	**2015**	**2016**
	Days	**Days**	**Days**
Trade receivable turnover days(1)	194.0	157.3	44.6
Trade and other receivables turnover days(2)	262.1	222.8	99.1

Notes:

(1) Calculated as the average net trade receivables for the relevant period divided by revenue for the relevant period, multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended December 31, 2014, 2015 and 2016.

(2) Calculated as the average net trade and other receivables for the relevant period divided by revenue for the relevant period, multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended December 31, 2014, 2015 and 2016.

The significant year to year fluctuation in our receivable turnover days was primarily a result of the timing of payments we received from the Kunming government, whose late payment for the 2014 wastewater treatment fees resulted in a significant increase in our closing balance of trade receivables for the year ended December 31, 2014 and whose payment of fees in 2015 resulted in a significant decrease in our closing balance of trade receivables for the year ended December 31, 2015. This in turn led to a significant increase in 2014 and a significant decrease in 2015 and 2016 in respect of trade receivable turnover days.

Trade and other payables

Our trade and other payables primarily consists of trade payables, staff salaries and welfare payables, advance from customers, payables on acquisition of property, plant and equipment, interest payables, and accrued taxes other than income tax. The following table shows the breakdown of our trade and other payables as of the dates indicated:

	As of December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade payables	1,513	717	2,093
Other payables	139,792	162,947	53,176
Consideration payable for acquisition of subsidiary	–	26,067	18,447
Staff salaries and welfare payables	17,783	21,075	28,661
Advance from customers	9,967	160,099	12,177
Payables on property, plant and equipment	39,078	100,723	151,957
Payables on acquisition of land use rights from related parties	–	–	58,194
Interest payables	1,558	1,998	1,310
Accrued taxes other than income tax	25,505	76,422	96,324
	235,196	550,048	422,339

Our trade and other payables decreased by RMB127.7 million, or 23.2%, to RMB422.3 million as of December 31, 2016 from RMB550.0 million as of December 31, 2015. The decrease was primarily due to (i) a decrease in other payables by RMB109.7 million, or 67.4%, to RMB53.2 million as of December 31, 2016 from RMB162.9 million as of December 31, 2015, mainly attributable to payment of payables to related parties; and (ii) a decrease in advance from customers by RMB147.9 million, or 92.4%, to RMB12.2 million as of December 31, 2016 from RMB160.1 million as of December 31, 2015, mainly attributable the recognition of revenue corresponding to Kunming government's prepayment of wastewater treatment fee for the first quarter of 2016, partially offset by (1) an increase in payables on acquisition of property, plant and equipment by RMB51.3 million, or 50.9%, to RMB152.0 million as of December 31, 2016 from RMB100.7 million as of December 31, 2015 and (2) an increase in payables on acquisition of land use rights from related parties by RMB58.2 million, primarily due to our acquisition activities.

Our trade and other payables increased by RMB314.8 million, or 133.8%, to RMB550.0 million as of December 31, 2015 from RMB235.2 million as of December 31, 2014. Such an increase primarily reflected an increase in advance from customers by RMB150.1 million, or 1,501.0%, to RMB160.1 million as of December 31, 2015 from RMB10.0 million as of December 31, 2014, primarily due to the Kunming government's prepayment of wastewater treatment fee for the first quarter of 2016, an increase in payables on acquisition of property, plant and equipment by RMB61.6 million, or 157.5%, to RMB100.7 million as of December 31, 2015 from RMB39.1 million as of December 31, 2014, primarily due to our acquisition activities, and an increase in accrued taxes other than income tax by RMB50.9 million, or 199.6%, to RMB76.4 million as of December 31, 2015 from RMB25.5 million as of December 31, 2014, primarily due to land tax accrued as a result of our increased land holding and the newly-imposed value-added tax.

The aging analysis of trade and other payables of our Group is as follow:

	As of December 31,		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
– Within one year	558	702	2,093
– Over one year and within two years	16	7	–
– Over two years and within three years	939	8	–
	1,513	717	2,093

As of December 31, 2014, 2015 and 2016, all trade and other payables of our Group were non-interest bearing, and their fair values, except for the advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The following table sets out our payable turnover days for the periods indicated:

	As of December 31,		
	2014	**2015**	**2016**
	Days	**Days**	**Days**
Trade and other payables turnover days(1)	228.6	320.6	362.6
Trade payables turnover days(2)	13.8	6.9	19.4

Notes:

(1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period, multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 2014, 2015 and 2016.

(2) Calculated as the balance of trade payables at the end of the relevant period divided by total purchase of materials for such period and multiplied by 365 days for the years ended 31 December 2014, 2015 and 2016.

Our payable turnover days remained stable in 2016. Our payable turnover days increased from 2014 to 2015, primarily as a result of the Kunming government's prepayment of wastewater treatment fee for the first quarter of 2016, which led to a high closing balance of trade and other payables for the year ended December 31, 2015, and the increased amount of acquisition activities we undertook.

Our trade payables turnover days have consistently remained at a low level throughout the Track Record Period primarily due to the low cost of the raw materials and our general policy of settling accounts monthly with our major suppliers and paying our other suppliers within 10 to 15 days after receiving the delivery of goods.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no material default in payment of trade payables.

INDEBTEDNESS

Borrowings

All of our borrowings are denominated in RMB and some are secured by our property, plant and equipment. The following table shows our borrowings as of the dates indicated:

	As of December 31,			As of January 31,
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Non-current:				
Unsecured long-term borrowings	–	310,000	–	–
Secured long-term borrowings	288,887	167,908	48,356	37,113
Corporate bonds	–	692,731	693,639	693,719
Total non-current borrowings	**288,887**	**1,170,639**	**741,995**	**730,832**
Current:				
Unsecured short-term borrowings	739,640	660,000	660,000	660,000
Secured short-term borrowings	114,388	120,213	118,737	113,825
Total current borrowings	**854,028**	**780,213**	**778,737**	**773,825**
Total borrowings	**1,142,915**	**1,950,852**	**1,520,732**	**1,504,657**

The weighted average effective interest rate at each balance sheet date was as follows:

	As of December 31,			As of January 31,
	2014	2015	2016	2017
				(unaudited)
Average effective interest rate ···	7.2%	5.5%	4.8%	4.75%

Our total borrowings amounted to RMB1,142.9 million, RMB1,950.9 million, RMB1,520.7 million and RMB1,504.7 million as of December 31, 2014, 2015, 2016 and January 31, 2017, respectively. This represented an year-on-year increase of 70.7% between 2014 and 2015, an year-on-year decrease of 22.1% between 2015 and 2016 and a decrease of 1.1% between December 31, 2016 and January 31, 2017. Among our indebtedness, borrowings amounting to RMB403.3 million, RMB288.1 million, RMB167.1 million and RMB150.9 million as of December 31, 2014, 2015, 2016 and January 31, 2017 were secured by our property, plant and equipment. In addition to bank borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on December 25, 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company can adjust the interest rate for the remaining 2-year period, and the investors have an option to request early redemption of the outstanding corporate bond if they do not agree to the adjusted interest rate.

Historically, we primarily used short-term bank financings to support our construction projects and acquisition activities. We intend to reduce our short-term indebtedness by replacing some of our short-term borrowings with long-term borrowings. In 2015, we replaced short-term debts amounting to approximately RMB300.0 million with long-term loans and offered corporate bonds amounting to approximately RMB700.0 million. We intend to continue to utilize a combination of short-term and long-term bank borrowings and corporate bonds in the future to maintain a diversified debt profile while retaining sufficient flexibility for our operational needs.

Our loan agreements typically include material covenants such as requirements to promptly notify the lending banks in the event of material adverse changes in our operations and financial condition as well as restrictions on the use of proceeds from the bank borrowings. We are typically required to obtain the relevant lending banks' prior written consent before we conduct reorganizations, mergers, demergers, joint ventures, capital reductions, equity transfers, transfers of major assets or creditor's rights, material investments, substantial increases of debt financing or other actions that may adversely affect our ability to repay the loans. There are no material covenants relating to our corporate bonds. Please see the section headed "Risk Factors — Risks Relating to Our Business and Industry — We are restricted by covenants in our financing agreements" in this prospectus. However, our Directors do not expect that such covenants will materially restrict our overall ability to undertake additional debt or equity financing necessary to carry out our current business plans. Our Directors further confirmed that during the Track Record Period and up to the date of this prospectus, we had not experienced any material difficulties in obtaining banking facilities and debts financing not had we been rejected for any loan application or debt offering.

During the Track Record Period and up to the Latest Practicable Date, there was no delay or default in the repayment of our borrowings, and no bank had withdrawn any of the banking facilities previously extended to us nor had demanded any early repayment.

During the Track Record Period and up to the Latest Practicable Date, we were not in breach of any covenants in our loan agreements. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. We also confirm that as of the Latest Practicable Date, we had not received any requests for early repayment of the principal or interests under any of our loan agreements, and we did not have any plan for material external debt financing.

The table below sets out the maturity profiles of our borrowings as of the dates indicated:

	As of December 31,			As of January 31,
	2014	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**
On demand or within 1 year	854,028	780,213	778,737	773,825
Between 1 and 2 years	123,187	430,769	48,356	37,113
Between 2 and 5 years	165,700	47,139	–	–
Later than 5 years	–	692,731	693,639	693,719
	1,142,915	1,950,852	1,520,732	1,504,657

As of December 31, 2014, 2015 and 2016 and January 31, 2017, our net gearing ratio* was 26.5%, 28.0%, 30.1% and 32.8%, respectively. Our net gearing ratio increased as of December 31, 2016 and January 31, 2017 as compared to December 31, 2015 primarily due to a decrease in cash and cash equivalents which we spent for our operational and investment activities. Our net gearing ratio increased as of December 31, 2015 as compared to December 31, 2014 primarily due to the issuance of corporate bonds of approximately RMB700.0 million for a term of seven years at an annual interest rate of 4.35%. This bond issuance was undertaken to take advantage of the then low prevailing interest rate and to finance our acquisition and construction projects.

Except as disclosed above, as of January 31, 2017, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Note:

* Calculated as net debt divided by total capital at the end of the period. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the period. Total capital is calculated as total equity plus net debt.

CONTINGENT LIABILITIES

During the Track Record Period and up to the Latest Practicable Date, we have not had significant contingent liabilities. As of the Latest Practicable Date, we were not involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving our Group. If our Group is involved in any material legal proceedings in the future, and based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we would then record a contingent liability.

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since January 31, 2017.

COMMITMENTS

Our capital commitments contracted for at each balance sheet date, but not yet incurred are as follows:

	As of December 31,			As of January 31
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Property, plant and equipment	256,125	499,504	458,123	451,467
Land use rights and intangible assets	53,910	17,787	16,978	16,267
Acquisition of equity interests in subsidiaries	–	3,294	–	–
Acquisition of business under TOT/BOT model	–	11,000	–	–
	310,035	531,585	475,101	467,734

We lease various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,			As of January 31,
	2014	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
No later than 1 year	123	121	121	121
Later than 1 year and no later than 2 years	123	121	121	121
Later than 2 years and no later than 5 years	286	363	363	363
Later than 5 years	1,843	2,495	2,374	2,364
	2,375	3,100	2,979	2,969

CAPITAL EXPENDITURE

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB159.6 million, RMB408.0 million and RMB668.2 million for the years ended December 31, 2014, 2015 and 2016, respectively. We expect to fund our contractual commitments and capital expenditures principally though cash generated from our operating activities, proceeds from borrowings and the net proceeds we receive from the Global Offering. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

Our capital expenditure for each of our segments as at the dates indicated below is as follow:

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Wastewater treatment	130,963	381,600	651,031
Water Supply	28,654	26,353	17,034
Others	–	–	86
	159,617	407,953	668,151

Based on our current business plan, we expect to incur capital expenditure amounting to RMB627.4 million for the year ending December 31, 2017. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future results of operations. In addition, if we fail to obtain adequate financing, our ability to expand our business may be hindered. See "Risk Factors — Risks Relating to Our Business and Industry — Our wastewater treatment, reclaimed water supply and running water supply projects are capital intensive with long payback periods and we may require external funding for these projects".

LAND USE RIGHTS

Our interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which were RMB355.1 million, RMB347.6 million and RMB433.5 million as of December 31, 2014, 2015 and 2016, respectively.

LONG TERM PREPAYMENTS

Long term prepayments are prepayments we made to our Controlling Shareholder to purchase certain wastewater treatment plants that were still under construction during the Track Record Period. According to the relevant purchase agreements, the ownership of these wastewater treatment facilities would not be transferred to us until the construction of those wastewater treatment facilities was completed and the required quality inspection was passed.

As of December 31, 2014, 2015 and 2016, our prepayment balance was RMB414.0 million, RMB864.0 million and RMB450.0 million, respectively. Long term prepayment in 2014 comprised of the prepayments we made to purchase the Kunyang, Gucheng and Yunihe Water Purification Plants. Long term prepayment increased from 2014 to 2015 due to our prepayment made to purchase the Kunming No. 10 Water Purification Plant. Long term prepayment decreased by RMB414.0 million from 2015 to 2016 because our Controlling Shareholder completed the construction of the Kunyang, Gucheng and Yunihe Water Purification Plants in January 2016 and transferred the ownership of those assets to us.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment principally comprises property, plant and equipment located in the PRC and used in our business operations, including properties which we lease out on an operating lease basis for our concession services operations.

Our property, plant and equipment amounted to RMB1,703.3 million, RMB1,961.0 million and RMB2,369.1 million as of December 31, 2014, 2015 and 2016, respectively. This represented an increase of 15.1% on a year-on-year basis between 2014 and 2015, which was primarily related to construction in progress and prepayments, and a year-on-year increase of 20.7% between 2015 and 2016, which was primarily due to our Controlling Shareholder's transfer of the Kunyang, Gucheng and Yunihe Water Purification Plants, and the transfer of the Luolonghe and Laoyuhe Water Purification Plants by the Xindu Investment, the parent of our Shareholder Kunming Xindu, to us.

INTANGIBLE ASSETS

Our intangible assets primarily consist of operating concessions, purchase of computer software, and capitalized development cost incurred for improving technologies and techniques. The carrying amounts of our intangible assets were RMB29.4 million, RMB68.6 million and RMB75.2 million as of December 31, 2014, 2015 and 2016, respectively. This represented an increase of 133.3% and 9.6% on a year-on-year basis between 2014 and 2016. These changes in our intangible assets primarily reflected the addition of operating concessions through our acquisition of subsidiaries amounting to RMB11.4 million, RMB34.1 million and RMB6.2 million in 2014, 2015 and 2016, respectively, and our investment into the development of an energy consumption monitoring system and other software amounting to RMB1.5 million, RMB0.6 million and RMB1.4 million in 2014, 2015 and 2016, respectively.

Key Financial Ratios

The table below sets forth certain key financial ratios during the Track Record Period:

	As of or for the year ended December 31,		
	2014	2015	2016
Gross profit margin(1)	49.7%	45.8%	46.5%
Net profit margin(2)	33.4%	28.8%	30.1%
Return on equity(3)	10.5%	10.7%	11.0%
Return on total assets(4)	6.5%	4.9%	6.0%
Current ratio(5)	104.8%	95.6%	62.6%
Quick ratio(6)	104.2%	95.2%	61.7%
Net gearing ratio(7)	26.5%	28.0%	30.1%

Notes:

(1) Equals gross profit divided by our total revenue for the same period.

(2) Equals profit for the year divided by our total revenue for the same period.

(3) Represents profit for the year as a percentage of total equity for the same period.

(4) Represents profit for the year as a percentage of total assets for the same period.

(5) Equals current assets divided by current liabilities as at the end of the period.

(6) Equals current assets less inventories divided by current liabilities as at the end of the period.

(7) Calculated as net debt divided by total capital at the end of the period. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the period. Total capital is calculated as total equity plus net debt.

Gross profit margin and net profit margin

See "Financial Information — Consolidated Results of Operation" for a discussion of the factors affecting our gross profit margin and net profit margin during the Track Record Period.

Return on equity

Our return on equity has remained stable over the Track Record Period, primarily reflecting the consistency of our financial performance and overall liability position.

Return on total assets

Our return on total assets decreased from 6.5% in 2014 to 4.9% in 2015 primarily as a result of the corporate bond issuance we conducted in December 2015 and the advance payment we received from the Kunming Bureau of Finance for services to be provided in 2016, thereby increased the amount of our total assets in 2015 without affecting our return. Our return on total assets increased from 4.9% in 2015 to 6.0% in 2016, primarily due to a decrease in total assets resulting from repayment of loans.

Current ratio and quick ratio

Our current ratio and quick ratio decreased from 104.8% and 104.2% as of December 31, 2014 to 95.6% and 95.2% as of December 31, 2015, and to 62.6% and 61.7% as of December 31, 2016, respectively. The decreases were primarily due to the capital-intensive nature of our industry and the increasing amount of borrowings we undertake during the Track Record Period to finance our business expansion, as well as a RMB640.7 million decrease in cash balance as of December 31, 2016 as compared with December 31, 2015.

Gearing ratio

See "Financial Information — Indebtedness" for a discussion of the factors affecting our gearing ratio during the Track Record Period.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in Note 38 of Section II of the Accountant's Report as set out in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and were not less favorable to us than terms available to or from independent third parties.

DISTRIBUTABLE PROFITS

As of December 31, 2016, the Company had distributable profits of approximately RMB1,077.8 million, which are available for distribution to our Shareholders.

DIVIDEND POLICY

In 2015, we declared dividends of RMB252.0 million, which has been paid. After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. Our dividend policy for the years 2017 and 2018 is to pay dividends in an amount of no less than 50% of our annual distributable profits for the year (excluding the amount accrued in the previous years) for each of the years, respectively. The proposal of payment and the amount of our dividends for 2016 and the periods after 2018 will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Any dividend distribution shall also be subject to the approval of our Shareholders in a shareholders' meeting. We cannot assure you that we will declare or pay such or any amount of dividends for each or any of the years.

Under the PRC Company Law and our Articles of Association, we will pay dividends out of our after-tax profit only after we have made the following allocations:

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

When the statutory reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations will be required. Our profit distributable for the above-mentioned allocations and our dividend distributions are expected to be paid out of our after-tax profit as determined by PRC GAAP or IFRSs, whichever is lower.

All of our Shareholders have equal rights to dividends and distributions in the form of stock or cash.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which, had we been required to comply with the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENTS

Our business model, revenue and cost structure have remained unchanged since December 31, 2016.

We acquired certain entity interests and assets after the Track Record Period. Please see the sections headed "Business — Acquisitions After the Track Record Period" and "Risk Factors — Risks Relating to Our Business and Industry — The acquisitions we made after the Track Record Period are uncertain and have legal, financial and other risks" in this prospectus for further details.

Nantong Project

We acquired from Jiangsu Tianyingsaite Environment and Energy Group and Jiangsu Tianying Water Development Co., Ltd. 100% of the equity interests in Hongze Tianying Wastewater Treatment Co. Ltd., Hai'an Qutang Wastewater Treatment Co. Ltd. and Hai'an Libao Wastewater Treatment Co. Ltd. in January 2017.

The combined financial information of the three entities of the Nantong Project has been prepared in accordance with IFRSs and under the historical cost conversion. The accounting policies of the three entities follow the Group's accounting policies. Since the three entities are controlled by Jiangsu Tianying Water Development Co., Ltd. and have been managed as a business together, the financial information has been presented on a combined basis. See "Appendix I — Accountant's Report — Section III Note 2: Basis of presentation" for details.

The combined revenues of these three entities for the years ended December 31, 2014, 2015 and 2016 were RMB13.3 million, RMB12.5 million and RMB14.7 million, respectively. The combined revenue of these entities remained stable during stable during the Track Record Period although there was a slight decline in the combined revenue in 2015 as compared with that in 2014, primarily as a result of the imposition of the VAT. The combined comprehensive income for the years ended December 31, 2014, 2015 and 2016 were RMB7.8 million, RMB6.1 million and RMB8.9 million, respectively. The combined comprehensive income decreased slightly in 2015 as compared with that in 2014, also primarily as a result of the imposition of the VAT. As of December 31, 2014, 2015 and 2016, the combined net assets of these companies were RMB51.6 million, RMB57.7 million and RMB52.1 million, respectively. The combined net assets of these companies decreased as of December 31, 2016 as compared with December 31, 2015, primarily due to an increase in trade and other payables, a decrease in cash, and repayment of bank loans and dividend payment to former shareholders.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of the prospectus, there has been no material adverse change in our financial or trading position since December 31, 2016 and there has been no event since December 31, 2016 which would materially affect the information shown in the Accountant's Report as set out in Appendix I to this prospectus.

LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of RMB32.8 million, of which RMB3.9 million was charged to our consolidated statements of comprehensive income during the Track Record Period and RMB28.9 million was included in prepayments and will be subsequently charged to equity upon completion of the Listing. We expect to incur underwriting commissions and other additional listing expenses of approximately RMB66.3 million after December 31, 2016 (assuming an Offer Price of HK$4.31 per H Share), of which approximately RMB14.3 million will be charged to the consolidated statements of comprehensive income after December 31, 2016, and RMB52.0 million will be charged to equity upon completion of the Listing. The listing expenses above are the latest practicable estimate and are for reference only. The actual amount may differ from this estimate. None of the Selling Shareholders has incurred any listing expenses.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2016. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as of December 31, 2016 or any future dates.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as of December 31, 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of the Group attributable to equity holders of the Company as of December 31, 2016	Unaudited pro forma adjusted net tangible assets per Share	
	Note 1	*Note 2*		*Note 3*	*Note 5*
	RMB'000	**RMB'000**	**RMB'000**	**RMB**	**HK$**
Based on an Offer Price of HK$4.70 per H Share	2,419,111	1,191,204	3,610,315	3.51	3.94
Based on an Offer Price of HK$3.91 per H Share	2,419,111	982,942	3,402,053	3.31	3.72

Notes:

(1) The audited consolidated net tangible assets attributable to equity holders of the Company as of December 31, 2016 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as of December 31, 2016 of RMB2,494,308,000 with an adjustment for the intangible assets as of December 31, 2016 of RMB75,197,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$4.70 and HK$3.91 per H Share after deduction of the estimated underwriting fees and other related expenses (excluding listing expenses of approximately RMB3,916,000 which have been accounted for in the consolidated statement of comprehensive income prior to December 31, 2016) payable by us, and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,028,572,000 Shares were in issue assuming that the Global Offering has been completed on December 31, 2016 but takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2016.

(5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi are converted in to Hong Kong dollars at the rate of RMB1.000 to HK$1.1236. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

MARKET RISKS

Our activities expose us to a variety of financial market risks: credit risk, liquidity risk, interest rate risk and foreign exchange risk. Our overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We currently do not use any derivative financial instruments to hedge certain risk exposures.

Credit risk

The carrying amounts of cash and cash equivalents, term deposits with initial term of over three months, trade and other receivables and receivables under service concession arrangements included in the Financial Information represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control our potential exposure to recoverability problem.

All of our cash and cash equivalents and term deposits with initial term of over three months will be deposited in the major financial institutions in the PRC, which our directors believe are of high credit quality.

For trade and other receivables and receivables under service concession arrangements, our customers are primarily local governments and PRC state-owned entities and our management believes the credit risk is limited.

Liquidity risk

Our objective is to maintain sufficient cash and sources of funding through available banking facilities and maintain flexibility in funding by maintaining committed credit lines. We had net current assets of RMB53.1 million as of December 31, 2014 and net current liabilities of RMB59.0 million and RMB466.2 million as of December 31, 2015 and December 31, 2016. With regards to our future capital commitments and other financing requirements, we had unutilized banking facilities of RMB740.0 million as of January 31, 2017.

To manage the liquidity risk, our management monitors rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flows. We expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our interest-bearing borrowings and finance lease payables.

Borrowings obtained at variable rates expose us to cash flow interest-rate risk. Borrowings obtained at fixed rates expose us to fair value interest-rate risk. We have not hedged our cash flow or fair value interest-rate risk.

The interest rates and terms of repayments of our borrowings are disclosed in Note 22 of Section II of the Accountant's Report as set out in Appendix I to this prospectus.

As of December 31, 2014, 2015 and 2016, if the interest rate on borrowings had been higher or lower by 5%, our net profit for each of the respective periods would have changed as a result of higher or lower interest expenses on our floating rate borrowings as follows:

	Year ended December 31,		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Net profit increase/(decrease)			
– Higher 5%	(2,035)	(1,377)	(685)
– Lower 5%	2,035	1,377	685

Foreign exchange risk

Our activities do not expose us to significant foreign exchange risk because we principally operate in the PRC and RMB is the currency of the primary economic environment in which we operate. However, there will be foreign exchange risk involved in relation to the Global Offering, as it will be conducted in currencies other than RMB. There will also be foreign exchange risk involved in our anticipated businesses abroad. See "Risk Factors — Risks Relating to Conducting Business in the PRC — Our business and your investment are exposed to foreign exchange rate fluctuations."

FUTURE PLANS

Please see the section headed "Business" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK$4.31 per H Share (being the mid-point of the stated range of the Offer Price of between HK$3.91 and HK$4.70 per H Share), we estimate that we will receive net proceeds of approximately HK$1,218.5 million from the Global Offering (after deducting the underwriting commissions and other estimated expenses and assuming the Over-allotment Option is not exercised).

We estimate that the net proceeds from the sale 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) to be HK$133.0 million if the Over-allotment Option is not exercised or HK$152.9 million if the Over-allotment Option is exercised in full assuming an Offer Price of HK$4.31 (being the mid-point of the stated range of the Offer Price between HK$3.91 and HK$4.70 per H Share). We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders. Based on a letter issued by the NSSF (She Bao Ji Jin Fa [2016] No. [130]) on October 13, 2016, all the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering will be remitted to an account designated by NSSF in accordance with the relevant PRC laws and regulations.

In line with our business strategies, we intend to use the net proceeds from the Global Offering for the following purposes and in the amounts set out below:

- Approximately 35%, or HK$426.5 million, will be used to finance BOT/BOO wastewater treatment and running water supply projects with approximately:

  (i) 35%, (HK$149.3 million) of these proceeds to be used to finance the construction of wastewater treatment projects of which we currently have the concession rights, namely Laos Golden Triangle Wastewater Treatment Plant, Yiliang County No. 2 Wastewater Treatment Plant and Pipeline Network, Laos Golden Triangle Running Water Supply Plant and Malong No. 2 Running Water Supply Plant.

These four projects in total require RMB135.0 million investment as set out below, which will be funded by the proceeds and cash.

In RMB 000'

Project	Total investment amount	Investment incurred	Investment to be incurred
Laos Golden Triangle Wastewater Treatment Plant	30,000.0	292.1	29,707.9
Yiliang County No. 2 Wastewater Treatment Plant and Pipeline Network	116,370.7	76,784.5	39,586.2
Laos Golden Triangle Running Water Supply Plant	30,000.0	301.5	29,698.5
Malong No. 2 Running Water Supply Plant	46,291.0	10,208.9	36,082.1
Total	**222,661.7**	**87,587.0**	**135,047.7**

(ii) 65%, (approximately HK$277.2 million) of these proceeds to be used to fund future wastewater treatment construction projects of which we would be granted the concession rights after competitive negotiations or tenders process with local governments. As of the Latest Practicable Date, we had neither entered into any letter of intent or agreement for any BOT/BOO projects where we do not own the concession rights, nor identified any acquisition target. Our acquisition targets are selected based on a variety of factors. See "Business — Our Businesses — Project Investment and Management Process — Project Selection and Average Investment Payback Period" for details;

- Approximately 35%, or HK$426.5 million, will be used to expand our operations through purchasing future TOT/TOO wastewater treatment and running water supply projects;

- Approximately 20%, or HK$243.7 million, will be used to repay certain of our current bank borrowings, with relevant terms as follow:

	Outstanding Amount as of December 31, 2016	Maturity Date	Interest Rate	Use of Borrowings
Bank of Communications Loan············	RMB300,000,000.0	August 27, 2017	4.75%	Working capital

- Approximately 10%, or HK$121.8 million, will be used to fund our working capital and for general corporate purposes.

Assuming the Over-allotment Option is not exercised, (i) our net proceeds will be increased by approximately HK$115.5 million in the event that the Offer Price is fixed at HK$4.70 per Offer Share (being the high-end of the stated range of the Offer Price); and (ii) our net proceeds will be decreased by approximately HK$118.5 million in the event that the Offer Price is fixed at HK$3.91 per Offer Share (being the low-end of the stated range of the Offer Price). 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 on a pro rata basis.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK$4.31 per Offer Share (being the mid-point of the stated range of the Offer Price), we will receive additional net proceeds of approximately HK$191.5 million (after deducting the underwriting commissions and other estimated expenses in connection with the Global offering). Assuming the Over-allotment Option is exercised in full, (i) our net proceeds will be increased by approximately HK$132.8 million in the event that the Offer Price is fixed at HK$4.70 per Offer Share (being the high-end of the Offer Price range stated in this prospectus); and (ii) our net proceeds will be decreased by approximately HK$136.3 million in the event that the Offer Price is fixed at HK$3.91 per Offer Share (being the low-end of the stated range of the Offer Price).

We intend to use all the additional net proceeds proportionately as set out above.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, and to the extent permitted by applicable laws and regulations, we intend to apply our net proceeds to short-term investments such as short-term demand deposits, money market instruments or other liquid assets with banks in Hong Kong or the PRC.

We have entered into cornerstone investment agreements with the following investors (the "**Cornerstone Investors**" and each a "**Cornerstone Investor**") pursuant to which the Cornerstone Investors in aggregate have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot) that may be subscribed with US$95.3 million (approximately HK$740.5 million) (the "**Cornerstone Placing**"). Assuming an Offer Price of HK$3.91 (being the low-end of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed or purchased for by the Cornerstone Investors would be up to 189,380,000, representing approximately (i) 55.8% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 18.4% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 17.6% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK$4.31 (being the mid-point of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 171,803,000, representing approximately (i) 50.6% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 16.7% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 16.0% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK$4.70 (being the high end of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 157,547,000 representing approximately (i) 46.4% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 15.3% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 14.7% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

To the best knowledge of the Company, except for Kunming Industrial Development, a wholly-owned subsidiary of Kunming IDI which is an existing shareholder of the Company, each of the Cornerstone Investors is independent of the Company, not our connected person, and not an existing Shareholder or their respective close associates. For details of the waiver obtained in relation to the allocation of Offer Shares to Kunming Industrial Development, please refer to the section headed "Waivers from Strict Compliance with the Listing Rules — Waiver in Relation to Subscription of H Shares by Certain Existing Shareholders" in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will also be disclosed in the allotment results announcement to be issued by our Company on or around Wednesday, April 5, 2017.

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 (as defined under the Listing Rules) of our Company. The Cornerstone Investors do not have any preferential rights compared with other Shareholders in the respective cornerstone investment agreements. The cornerstone investment agreement entered into between our Company and Kunming Industrial Development does not contain any material terms which are more favorable to Kunming Industrial Development than those in other cornerstone investment agreements. The Cornerstone Investors have independent decision making procedures in place regarding its management and investment and have made its investment decision in subscribing for the H Shares independently, and neither Kunming SASAC nor Kunming IDI is expected to exert influence over the Cornerstone Investors in making such investment decision. Neither Kunming SASAC nor Kunming IDI will participate in any decision in relation to the allocation process in the Global Offering. Therefore, neither Kunming SASAC nor Kunming IDI is in fact in a position to exert any direct influence over the allocation process in the Global Offering.

CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

1. Kunming Industrial Development

Kunming Industrial Development is a company established under the laws of the PRC wholly owned by Kunming IDI, an existing Shareholder of our Company who holds 2,738,000 Domestic Shares of the Company, representing approximately 0.38% of the Company's total issued share capital as of the date of this prospectus. Kunming Industrial Development is ultimately wholly owned by Kunming SASAC. It is principally engaged in the business of urban and rural development, affordable housing development and management, and other property and infrastructure project development and management.

Kunming Industrial Development has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US$29.7 million (approximately HK$230.8 million) at the Offer Price. Assuming the Offer Price is fixed at HK$3.91, being the low-end of the Offer Price range shown in this prospectus, Kunming Industrial Development will subscribe for approximately 59,020,000 Offer Shares representing approximately (i) 17.4% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 5.7% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 5.5% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.31, being the midpoint of the Offer Price range shown in this prospectus, Kunming Industrial Development will subscribe for approximately 53,542,000 Offer Share, representing approximately (i) 15.8% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 5.2% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 5.0% of the Shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.70, being the high-end of the Offer Price range shown in this prospectus, Kunming Industrial Development will subscribe for approximately 49,099,000 Offer Shares, representing approximately (i) 14.5% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 4.8% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 4.6% of the Shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

2. Yunnan Provincial Investment Holdings Group Co., Ltd.

Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司) ("**Yunnan Provincial Investment**") is a company established under the laws of the PRC wholly and ultimately owned by the State-owned Assets Supervision and Administration Commission of Yunnan Province. It is principally engaged in the operation and management of provincial infrastructure construction funds and other provincial special construction fund.

Yunnan Provincial Investment has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US$32.6 million (approximately HK$253.3 million) at the Offer Price. Assuming the Offer Price is fixed at HK$3.91 being the low-end of the Offer Price range shown in this prospectus, Yunnan Provincial Investment will subscribe for approximately 64,783,000 Offer Shares representing approximately (i) 19.0% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 6.3% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 6.0% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.31, being the midpoint of the Offer Price range shown in this prospectus, Yunnan Provincial Investment will subscribe for approximately 58,770,000 Offer Share, representing approximately (i) 17.3% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 5.7% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 5.5% of the Shares it issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.70, being the high-end of the Offer Price range shown in this prospectus, Yunnan Provincial Investment will subscribe for approximately 53,894,000 Offer Shares, representing approximately (i) 15.8% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 5.2% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 5.0% of the Shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

3. Beijing Enterprises Water Group Limited

Beijing Enterprises Water Group Limited ("**BEWG**") is a company incorporated in Bermuda and whose shares are listed on the Stock Exchange (stock code: 0371). Beijing Enterprises Holdings Limited ("**Beijing Holdings**"), a diversified utility conglomerate whose shares are listed on the Stock Exchange (stock code: 0392) and owned by the State-owned Assets Supervision and Administration Commission of the Beijing Municipal Government, is the controlling shareholder of BEWG as it owns approximately 43.9% interest in the total issued share capital of BEWG. BEWG and its subsidiaries are principally engaged in operations in water treatment business, construction and technical services for the water environmental renovation.

BEWG has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US$23.0 million (approximately HK$178.7 million) at the Offer Price. Assuming the Offer Price is fixed at HK$3.91 being the low-end of the Offer Price range shown in this prospectus, BEWG will subscribe for approximately 45,705,000 Offer Shares representing approximately (i) 13.5% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 4.4% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 4.3% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.31, being the midpoint of the Offer Price range shown in this prospectus, BEWG will subscribe for approximately 41,464,000 Offer Share, representing approximately (i) 12.2% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 4.0% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 3.8% of the Shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.70, being the high-end of the Offer Price range shown in this prospectus, BEWG will subscribe for approximately 38,023,000 Offer Shares, representing approximately (i) 11.2% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 3.7% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 3.5% of the Shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

4. China Water Environment Group Limited

China Water Environment Group Limited (中國水環境集團有限公司) ("**CWEG**") is a company incorporated in the Cayman Islands. CPEChina Water Investment Limited, an investment company incorporated in the British Virgin Island, is the controlling shareholder of CWEG as it owns approximately 64.1% interest in the total issued share capital of CWEG. CWEG and its subsidiaries are principally engaged in comprehensive improvement of water environment.

CWEG has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US$10.0 million (approximately HK$77.7 million) at the Offer Price. Assuming the Offer Price is fixed at HK$3.91 being the low-end of the Offer Price range shown in this prospectus, CWEG will subscribe for approximately 19,872,000 Offer Shares representing approximately (i) 5.9% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 1.9% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 1.8% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.31, being the midpoint of the Offer Price range shown in this prospectus, CWEG will subscribe for approximately 18,027,000 Offer Share, representing approximately (i) 5.3% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 1.8% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 1.7% of the Shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK$4.70, being the high-end of the Offer Price range shown in this prospectus, CWEG will subscribe for approximately 16,531,000 Offer Shares, representing approximately (i) 4.9% of the Offer Shares under the Global Offering, assuming no exercise of the Over-allotment Option; (ii) 1.6% of the Shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (iii) 1.5% of the Shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

Conditions Precedent

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent (i) the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into and having become unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) and not having been terminated; (ii) the Listing Committee of the Hong Kong Stock Exchange having granted the Listing of, and permission to deal in, the H Shares and that such approval or permission has not been revoked; and (iii) no laws having been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Global Offering and there being no orders or injunctions from a court of competent jurisdiction in effect preceding 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, inter alia, our Company and the underwriter representative (as defined in the relevant cornerstone investment agreement), it will not, whether directly or indirectly, at any time during the period of six (6) months from the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the 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, among others, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, abide by the terms and restrictions imposed on the Cornerstone Investor.

HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited
China International Capital Corporation Hong Kong Securities Limited
Haitong International Securities Company Limited
Zhongtai International Securities Limited
Huatai Financial Holdings (Hong Kong) Limited
GF Securities (Hong Kong) Brokerage Limited
CCB International Capital Limited
BOCI Asia Limited
CMB International Capital Limited
Guotai Junan Securities (Hong Kong) Limited
China Everbright Securities (HK) Limited
ZMF Asset Management Limited
Sinomax Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 33,943,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, our H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

One of the conditions is that the Offer Price must be agreed between us, on behalf of ourselves and the Selling Shareholders, and the Joint Global Coordinators, on behalf of the Underwriters. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between us, on behalf of ourselves and the Selling Shareholders, and the Joint Global Coordinators, on behalf of the Underwriters, the Global Offering will not proceed.

Grounds for Termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Sole Sponsor shall be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, any member of the European Union, Japan, Singapore or any other jurisdiction relevant to any member of the Group or the Global Offering (collectively, the "**Relevant Jurisdictions**"); or

(ii) any change, or any development involving a prospective change (whether or not permanent), in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, investment markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or

(iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

(iv) any moratorium, suspension or restriction (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 the Company or of any other member of the Group listed or quoted on a stock exchange or an over-the-counter market; or

(v) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the European Union (or any member thereof), Japan, Singapore or any other Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or

(vi) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing Laws, in each case, in or affecting any of the Relevant Jurisdictions; or

(vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

(viii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or

(ix) any actions, suits, proceedings or claims of any third party being threatened or instigated against any member of the Group; or

(x) a Director 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

(xi) the chairman and chief executive officer of the Company vacating her office; or

(xii) an authority or a political body or organization in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or

(xiii) a contravention by any member of the Group of the Listing Rules or applicable Laws; or

(xiv) a governmental or regulatory prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the H Shares (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) pursuant to the terms of the Global Offering; or

(xv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or

(xvi) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the H Shares) pursuant to the Companies Ordinance, 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

(xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or

(xviii) any change or development or event involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(xix) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators and the Sole Sponsor (1) have or will have or may have a material adverse change, or any development involving a prospective material adverse change, in or affecting on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, revenue, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company or the Group taken as a whole; or (2) have or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the H Shares in the secondary market; or (3) make or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) have or will have 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 or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Global Coordinators or the Sole Sponsor:

(i) that any statement contained in any of this prospectus and the Application Forms (the "**Hong Kong Public Offering Documents**") and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the 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 in any material respect or misleading, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the Hong Kong Public Offering Documents and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or

(iv) any event, act or omission which gives or is likely to give rise to any liability of either of the Company or the Controlling Shareholder under the Hong Kong Underwriting Agreement; or

(v) any adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of the Group; or

(vi) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the representations, warranties, agreements and undertakings of the Company or the Controlling Shareholder under the Hong Kong Underwriting Agreement; or

(vii) approval by the Listing Committee of the 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 Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(ix) any person (other than the Sole Sponsor) has withdrawn or is subject to withdraw its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents.

Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

Undertakings by our Company

We have undertaken to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules or pursuant to the Global Offering and the Over-allotment Option, no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued 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 securities will be completed within six months from the Listing Date).

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months from the Listing Date (the "**First Six-Month Period**"), the Company hereby undertakes to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor not to, and to procure each other member of the Group not to, without the prior written consent of the Joint Global Coordinators (for themselves on behalf of the Hong Kong Underwriters) and the Sole Sponsor and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares, Domestic Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group (except any issuance or allotment of share capital or equity securities to us by our subsidiaries), as applicable, or any interest in any of the foregoing (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 H Shares, Domestic Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group (except any right to receive or purchase share capital or equity securities in our subsidiaries by us), as applicable, or any interest in any of the foregoing), or deposit any H Shares, Domestic Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares, Domestic Shares or other equity securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (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 H Shares, Domestic Shares or other equity securities of the Company or any shares or other equity securities of such other member of the Group, as applicable or any interest in any of the foregoing); or

(c) enter into any transaction with the same economic effect as any transaction specified in sub-clause (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in sub-clause (a), (b) or (c) above, in each case, whether any of the transactions specified in sub-clause (a), (b) or (c) above is to be settled by delivery of H Shares, Domestic Shares or other equity securities of the Company or shares or other equity securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such H Shares, Domestic Shares or other shares or equity securities will be completed within the First Six-month Period). In the event that the Company enters into any of the transactions specified in sub-clause (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Undertakings by the Controlling Shareholder

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and to the Company that except pursuant to the Global Offering and the Over-allotment Option it will not and will procure that its controlled registered holder(s) of the Shares will not:

(a) in the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date on which the First Six-Month Period expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of the Company in respect of which it is shown by this prospectus to be the beneficial owner(s); and

(b) in the period of six months commencing from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in the immediately preceding paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and to the Company that it will, within the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

(i) upon any pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of the Company beneficially owned by it for a bona fide commercial loan, immediately inform the Company, the Sole Sponsor and the Joint Global Coordinators in writing of such pledge or charge together with the number of such Shares or securities so pledged or charged; and

(ii) upon any indication received by it, either verbal or written, from any pledgee or chargee of Shares or other securities of the Company pledged or charged that any of the pledged or charged Shares or securities or interests in the Shares or securities of the Company will be disposed of, immediately inform the Company in writing of such indication.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by the Controlling Shareholder and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by the Controlling Shareholder.

The International Offering

In connection with the International Offering, it is expected that our Company (for itself and on behalf of the Selling Shareholders) will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

We, for ourselves and on behalf of the Selling Shareholders, will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters during the 30-day period from the last day for lodging of applications under the Hong Kong Public Offering, which will end on Friday, April 28, 2017, to require us to issue and allot and the Selling Shareholders to sell up to an aggregate of 50,914,000 additional H Shares, representing approximately 15% of the H Shares initially available under the Global Offering, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Total Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 3.5% on the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, the Company may, in its sole discretion, pay any or all of the Hong Kong Underwriters an incentive fee of up to 0.5% of the Offer Price per Offer Share.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK$4.31 per Offer Share (being the midpoint of the indicative offer price range of HK$3.91 to HK$4.70 per Offer Share), the aggregate commissions and fees (including any discretionary incentive fee which may be payable by us), together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering are estimated to be approximately HK$111.4 million in total.

Activities by Syndicate Members

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and, together referred to as "Syndicate Members," may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- the Syndicate Members must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

- all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the H Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their or part of their underlying assets, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All of these activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus.

These activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Indemnity

Each of the Company and the Controlling Shareholder has agreed to indemnify, among others, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from the performance of their obligations under the Underwriting Agreements and any breach by us of the Underwriting Agreements, as the case may be.

Hong Kong Underwriters' Interests in our Company

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Over-allotment and Stabilization

For details of the arrangements relating to the Over-allotment Option and stabilization, please see the section headed "Structure of the Global Offering — Stabilization" in this prospectus.

Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Hong Kong Listing Rules.

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:

(i) the Hong Kong Public Offering of 33,943,000 H Shares in Hong Kong as described below in the section headed "Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of initially 305,487,000 H Shares to be offered outside the United States in reliance on Regulation S. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Global Coordinators, as the representative of the International Underwriters, have an option to require our Company to issue and allot and the Selling Shareholders to sell up to an aggregate of 50,914,000 additional Offer Shares, representing 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 33% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 36.3% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the section headed "— The International Offering — Over-allotment Option" below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the section headed "— The Hong Kong Public Offering — Reallocation" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 33,943,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under 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. The Hong Kong Offer Shares will represent approximately 3.3% of the Company's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. 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 the section headed "— The Hong Kong Public Offering — Conditions of the Hong Kong Public Offering" in this prospectus.

Allocation

Allocation of the Hong Kong Offer 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 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 Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of the Hong Kong 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 Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong 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 Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong 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 the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong 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 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 Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 16,971,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. If the number of the Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more the number of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering, then the International Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 101,829,000 Hong Kong Offer Shares (in the case of (i)), 135,772,000 Hong Kong Offer Shares (in the case of (ii)) and 169,715,000 Hong Kong Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

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/her that he/she and any person(s) for whose benefit he/she 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 Offer 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 Offer Shares under the International Offering.

The listing of the H Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$4.70 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "— Pricing of the Global Offering" in this prospectus, is less than the maximum price of HK$4.70 per Hong Kong Offer 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 headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);

(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; and

(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.

If, for any reason, the Offer Price is not agreed between our Company (on behalf of ourselves and the Selling Shareholders) and the Joint Global Coordinators (on behalf of the Underwriters) on or before Friday, March 31, 2017, 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.

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 South China Morning Post (in English) and 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 headed "How to Apply for Hong Kong Offer Shares" in this prospectus. 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 Offer Shares are expected to be issued on Wednesday, April 5, 2017 but will only become valid certificates of title at 8:00 a.m. on Thursday, April 6, 2017 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus has not been exercised.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an aggregate of 305,487,000 Offer Shares to be offered by us and the Selling Shareholders.

The Selling Shareholders are initially offering a total of 30,858,000 Sale Shares as part of the Global Offering. The Selling Shareholders may sell up to an aggregate of 35,487,000 Sale Shares if the Over-allotment Option is exercised in full. Pursuant to a letter issued by the NSSF on October 13, 2016, the NSSF instructed us, among other things, to remit the proceeds (after deduction the SFC transaction levy and Hong Kong Exchange trading fee) from the sale of the Sale Shares currently registered in the name of the Selling Shareholders in Global Offering to an account designated by the NSSF in accordance with relevant PRC laws and regulations.

Allocation

The International Offering will include selective marketing of the International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Offer 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. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section headed "— Pricing of the Global Offering" in this prospectus 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 Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer 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 Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered the International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we and the Selling Shareholders are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot and the Selling Shareholders to sell up to an aggregate of 50,914,000 additional Offer Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 4.7% of the Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

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 in 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 them, 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 the Over-allotment Option. 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, namely, 50,914,000 H Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

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 minimising 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 minimising any deduction in the market price;

(c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the 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 minimising 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 Friday, April 28, 2017. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by applicants. 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

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring the International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the International Offer 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.

Pricing for the Offer 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 Wednesday, March 29, 2017, and in any event on or before Friday, March 31, 2017, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company (on behalf of ourselves and the Selling Shareholders) and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$4.70 per Offer Share and is expected to be not less than HK$3.91 per Offer 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.**

The Joint Global Coordinators, on behalf of 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 (on behalf of ourselves and the Selling Shareholders), reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price stated below 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 South China Morning Post (in English) and 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.kmdcwt.com**) notices of the reduction. Upon issue of such a notice, the number of 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 Global Coordinators, on behalf of the Underwriters, and our Company, on behalf of ourselves and 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 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 notice will also include confirmation or revision, as appropriate, of 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 notice so published, the Offer Price, if agreed upon with our Company (on behalf of ourselves and the Selling Shareholders) and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of the Hong Kong Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The International 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 Global Coordinators.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting commissions and other expenses in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$1,334.0 million, assuming an Offer Price per Offer Share of HK$4.70, or approximately HK$1,100.0 million, assuming an Offer Price per Offer Share of HK$3.91 (or if the Over-allotment Option is exercised in full, approximately HK$1,542.9 million, assuming an Offer Price per Offer Share of HK$4.70, or approximately HK$1,273.8 million, assuming an Offer Price per Offer Share of HK$3.91).

The Offer Price under the Global Offering is expected to be announced on Wednesday, April 5, 2017. The indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, April 5, 2017 in South China Morning Post (in English) and 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.kmdcwt.com**).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is 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 headed "Underwriting".

ADMISSION OF THE H SHARES INTO CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

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 Thursday, April 6, 2017, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, April 6, 2017. 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 3768.

1. HOW TO APPLY

If you apply for the Hong Kong Offer Shares, then you may not apply for or indicate an interest for the International Offer Shares.

To apply for the Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.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 Global Coordinators, the **HK eIPO White Form** 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 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.

If you apply online through the **HK eIPO White Form** 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.

If an application is made by a person under a power of attorney, the Joint Global Coordinators 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 **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any 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 OFFER SHARES

Which Application Channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk**.

For Hong Kong 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.

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 Friday, March 24, 2017 till 12:00 noon on Wednesday, March 29, 2017 from:

any of the following offices of the Hong Kong Underwriters:

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

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

Zhongtai International Securities Limited
7th Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
Room 5808–12, 58/F, The Center
99 Queen's Road Central
Hong Kong

GF Securities (Hong Kong) Brokerage Limited
29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
Central
Hong Kong

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Cental
Hong Kong

CMB International Capital Limited
Units 1803-04, 18/F
Bank of America Tower 12 Harcourt Road
Central, Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

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

ZMF Asset Management Limited
Room 2502, World Wide House
19 Des Voeux Road Central
Hong Kong

Sinomax Securities Limited
Room 2705-6, 27/F, Tower One
Lippo Centre, 89 Queensway
Admiralty
Hong Kong

any of the branches of the following receiving banks:

Bank of Communications Co., Ltd. Hong Kong Branch

	Branch	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
Kowloon	Hunghom Sub-Branch	Shop A6, G/F., Whampoa Estate Planet Square, 1–3 Tak Man Street
	Lam Tin Sub-Branch	Shop No. 5 & 9, G/F., Kai Tin Towers, 51–67C Kai Tin Road, Lam Tin
New Territories	Tseung Kwan O Sub-Branch	Shop Nos. 252A, 252B & 253 on Level 2, Metro City Phase I, Tseung Kwan O
	Market Street Sub-Branch	G/F., 49–55 Tsuen Wan Market Street, Tsuen Wan

The Bank of East Asia, Limited

	Branch	Address
Hong Kong Island	Hennessy Road Branch	G/F, Eastern Commercial Centre 395–399 Hennessy Road, Wanchai
	King's Road Branch	Shop 2, G/F, S U P Tower 75–83 King's Road, Quarry Bay
Kowloon	Mongkok Branch	638–640 Nathan Road, Mongkok
	Tsim Sha Tsui Branch	Shop A & B, Milton Mansion 96 Nathan Road, Tsim Sha Tsui
New Territories	Tai Po Plaza Branch	Units 49–52, Level 1 Tai Po Plaza, Tai Po
	Shatin Plaza Branch	Shop 3–4, Level 1, Shatin Plaza Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, March 24, 2017 till 12:00 noon on Wednesday, March 29, 2017 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 Communications (Nominee) Co. Ltd. — Kunming Dianchi 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:

- Friday, March 24, 2017 — 9:00 a.m. to 5:00 p.m.
- Saturday, March 25, 2017 — 9:00 a.m. to 1:00 p.m.
- Monday, March 27, 2017 — 9:00 a.m. to 5:00 p.m.
- Tuesday, March 28, 2017 — 9:00 a.m. to 5:00 p.m.
- Wednesday, March 29, 2017 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, March 29, 2017, the last application day or such later time as described in the section headed "— 10. Effect of Bad Weather on the Opening of the Applications Lists" in this prospectus.

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 **HK eIPO White Form** service, among other things, you:

(i) **undertake** to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (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 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 Ordinance, 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 Global Coordinators, the Sole Sponsor, 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 International Offer Shares under the International Offering nor participated in the International Offering;

(viii) **agree** to disclose to the Company, our H Share Registrar, the receiving banks, the Joint Global Coordinators, the Sole Sponsor, 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 Sole Sponsor, 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 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 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 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 the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto 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 chosen 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;

(xvii) **understand** that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 **HK eIPO White Form** Service Provider by you or by any one 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 their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** 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 **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, March 24, 2017 until 11:30 a.m. on Wednesday, March 29, 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, March 29, 2017 or such later time under the section headed "— 10. Effects of Bad Weather on the Opening of the Application Lists".

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** service more than once and obtaining different payment 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 **HK eIPO White Form** 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 42E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

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 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.

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 (**https://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 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 Global Coordinators 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 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 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;

- agree to accept the Hong Kong 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 International Offer Shares under the International Offering;

- (if the electronic application instructions are given for your benefit) 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 Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 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 he application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Sole Sponsor, 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, the receiving banks, the Joint Global Coordinators, the Sole Sponsor, 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;
- 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 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 **electronic application instructions** to apply for Hong Kong 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 Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

- agree with the Company, for itself and for the benefit of each of the Shareholders 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 of the Shareholders 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 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;

(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 the H Shares 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; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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 Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the 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 the 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 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong 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 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:

- Friday, March 24, 2017 — 9:00 a.m. to 8:30 p.m.(1)
- Saturday, March 25, 2017 — 8:00 a.m. to 1:00 p.m.(1)
- Monday, March 27, 2017 — 8:00 a.m. to 8:30 p.m.(1)
- Tuesday, March 28, 2017 — 8:00 a.m. to 8:30 p.m.(1)
- Wednesday, March 29, 2017 — 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.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, March 24, 2017 until 12:00 noon on Wednesday, March 29, 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, March 29, 2017, the last application day or such later time as described in the section headed "— 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

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 Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong 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 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 Sole Sponsor, 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 Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** 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 Global Coordinators, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong 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/CASS 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 Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, March 29, 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong 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 **HK eIPO White Form** 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.

"**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 OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Offer 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 **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong 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.hkeipo.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 the section headed "Structure of the Global Offering — Pricing of the Global Offering" in this prospectus.

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 Wednesday, March 29, 2017. 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.

If the application lists do not open and close on Wednesday, March 29, 2017 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 Offer Shares on Wednesday, April 5, 2017 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Company's website at **www.kmdcwt.com** 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.kmdcwt.com** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Wednesday, April 5, 2017;

- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, April 5, 2017 to 12:00 midnight on Tuesday, April 11, 2017;

- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, April 5, 2017 to Monday, April 10, 2017 (excluding Saturday, Sunday and Public Holiday);

- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, April 5, 2017 to Friday, April 7, 2017 at all the receiving banks' designated branches and sub-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 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" in this prospectus.

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.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** 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.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **HK eIPO White Form** 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.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H 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 the Company of that longer period within three weeks of the closing date of the application lists.

(iv) 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 Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** 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 dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators 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 16,971,000 Hong Kong 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$4.70 per Offer Share (excluding brokerage, SFC transaction levy and the 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 — The Hong Kong Public 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 the 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 Wednesday, April 5, 2017.

14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H share certificate for all Hong Kong 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 H 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:

- H share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H 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 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 the 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).

Subject to arrangement on despatch/collection of H share certificates and refund monies as mentioned below, any refund cheques and H share certificates are expected to be posted on or around Wednesday, April 5, 2017. The right is reserved to retain any H share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Thursday, April 6, 2017 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade the H 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 Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H share certificate(s) from the H Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, April 5, 2017 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 despatched 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 Offer Shares, your refund cheque(s) and/or H share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, April 5, 2017, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, April 5, 2017, 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 Wednesday, April 5, 2017, 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 the section headed "— 11. 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 Wednesday, April 5, 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong 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 HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, April 5, 2017, or such other date as notified by the Company in the newspapers as the date of despatch/collection of H Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your H 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 Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, April 5, 2017 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 despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched 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 Offer Shares

For the purposes of allocating Hong Kong 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 H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H 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 Wednesday, April 5, 2017, 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 Wednesday, April 5, 2017. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, April 5, 2017 or such other date as determined by HKSCC or HKSCC Nominees.

- 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 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 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 Wednesday, April 5, 2017. Immediately following the credit of the Hong Kong 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 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 the 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 Wednesday, April 5, 2017.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H 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 H 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.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

24 March 2017

The Directors
Kunming Dianchi Water Treatment Co., Ltd.

Morgan Stanley Asia Limited

Dear Sirs,

We report on the financial information (the "Financial Information") of Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司, the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated balance sheets as at 31 December 2014, 2015 and 2016, the balance sheets of the Company as at 31 December 2014, 2015 and 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2014, 2015 and 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. The Financial Information has been prepared by the directors of the Company and is set out in Section I to IV below for inclusion in Appendix I to the prospectus of the Company dated 24 March 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 23 December 2010 under the Company Law of the PRC.

As at the date of this report, the Company has direct interests in the subsidiaries and associates as set out in Note 39 and Note 12 of Section II below, respectively. All of these companies are established in the PRC, and have substantially the same characteristics as a Hong Kong incorporated private company.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

The statutory audited financial statements of the Company and its subsidiaries as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises incorporated in the PRC. The statutory auditor of the Company for the Relevant Periods was China Audit Asia Pacific Certified Public Accountants LLP (中審亞太會計師事務所, "China Audit"). The details of the statutory auditor of the subsidiaries are set out in Note 39 of Section II of this report.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. The Underlying Financial Statements have been audited by PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) in accordance with International Standards on Auditing (the "ISAs") issued by the International Auditing and Assurance Standards Board (the "IAASB") pursuant to separate terms of engagement with the Company.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

OPINION

In our opinion, the Financial Information gives, for the purposes of this report, a true and fair view of the financial position of the Company and the Group as at 31 December 2014, 2015 and 2016, and of the Group's financial performance and cash flows for the Relevant Periods.

I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2014, 2015 and 2016 and for each of the years ended 31 December 2014, 2015 and 2016 (the "Financial Information").

Consolidated Balance Sheets

		As at 31 December		
	Note	2014	2015	2016
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Land use rights	6	355,055	347,560	433,484
Long term prepayments	7	413,950	863,950	450,000
Property, plant and equipment	8	1,703,281	1,961,017	2,369,089
Receivables under service concession arrangements	9	57,460	243,901	341,944
Amounts due from customers for construction contracts	15	19,910	28,485	35,573
Intangible assets	10	29,401	68,647	75,197
Investments in associates	12	15,389	15,222	15,101
Prepayments for acquisition of subsidiaries	37	–	10,879	79,950
Deferred income tax assets	13	14,758	25,142	23,697
		2,609,204	3,564,803	3,824,035
Current assets				
Receivables under service concession arrangements	9	4,160	6,132	9,679
Inventories	14	6,422	6,605	10,336
Amounts due from customers for construction contracts	15	5,940	6,104	5,716
Trade and other receivables	16	817,660	189,762	306,895
Term deposits with initial term of over three months	18	25,000	–	–
Cash and cash equivalents	17	302,231	1,087,533	446,830
		1,161,413	1,296,136	779,456
Total assets		3,770,617	4,860,939	4,603,491

	Note	As at 31 December 2014	2015	2016
		RMB'000	RMB'000	RMB'000
EQUITY				
Capital and reserve attributable to equity holders of the Company				
Share capital	19	360,000	720,000	720,000
Other reserves	20	1,099,062	669,061	696,513
Retained earnings	21	867,424	830,254	1,077,795
		2,326,486	2,219,315	2,494,308
Non-controlling interests		2,000	–	5,102
Total equity		2,328,486	2,219,315	2,499,410
LIABILITIES				
Non-current liabilities				
Deferred revenue	23	41,157	110,623	107,121
Borrowings	22	288,887	1,170,639	741,995
Deferred income tax liabilities	13	3,798	5,214	9,321
		333,842	1,286,476	858,437
Current liabilities				
Trade and other payables	24	235,196	550,048	422,339
Current income tax liabilities		19,065	24,887	44,568
Borrowings	22	854,028	780,213	778,737
		1,108,289	1,355,148	1,245,644
Total liabilities		1,442,131	2,641,624	2,104,081
Total equity and liabilities		3,770,617	4,860,939	4,603,491
Net current assets /(liabilities)		53,124	(59,012)	(466,188)
Total assets less current liabilities		2,662,328	3,505,791	3,357,847

Balance Sheets

	Note	As at 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Land use rights	6	330,147	380,389	464,948
Long term prepayments	7	413,950	863,950	450,000
Property, plant and equipment	8	1,661,989	1,939,242	2,333,103
Receivables under service concession arrangements	9	11,761	66,782	125,469
Amounts due from customers for construction contracts	15	19,910	28,485	35,573
Intangible assets	10	18,266	23,781	25,211
Investments in subsidiaries	11	61,090	208,008	271,629
Investments in associates	12	17,739	17,939	17,939
Prepayments for acquisition of subsidiaries	37	–	10,879	79,950
Deferred income tax assets	13	5,896	16,024	15,355
		2,540,748	3,555,479	3,819,177
Current assets				
Inventories	14	3,032	3,135	4,203
Amounts due from customers for construction contracts	15	5,940	6,104	5,716
Trade and other receivables	16	830,420	194,544	322,752
Term deposits with initial term of over three months	18	25,000	–	–
Cash and cash equivalents	17	278,788	1,071,003	392,359
		1,143,180	1,274,786	725,030
Total assets		3,683,928	4,830,265	4,544,207
EQUITY				
Capital and reserve attributable to the equity holders of the Company				
Share capital	19	360,000	720,000	720,000
Other reserves	20	1,053,635	715,604	740,794
Retained earnings	21	877,932	824,024	1,050,844
Total equity		2,291,567	2,259,628	2,511,638

	Note	As at 31 December 2014	2015	2016
		RMB'000	RMB'000	RMB'000
LIABILITIES				
Non-current liabilities				
Deferred revenue	23	41,084	110,556	107,066
Borrowings	22	288,887	1,170,639	741,995
		329,971	1,281,195	849,061
Current liabilities				
Trade and other payables	24	189,376	484,377	361,996
Current income tax liabilities		18,986	24,852	42,775
Borrowings	22	854,028	780,213	778,737
		1,062,390	1,289,442	1,183,508
Total liabilities		1,392,361	2,570,637	2,032,569
Total equity and liabilities		3,683,928	4,830,265	4,544,207
Net current assets/(liabilities)		80,790	(14,656)	(458,478)
Total assets less current liabilities		2,621,538	3,540,823	3,360,699

Consolidated Statements of Comprehensive Income

	Note	Year ended 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Revenue	5	735,225	825,107	914,925
Cost of sales	27	(369,870)	(446,967)	(489,444)
Gross profit		365,355	378,140	425,481
Selling expenses	27	(8,230)	(9,456)	(10,605)
Administrative expenses	27	(48,993)	(69,857)	(97,604)
Research and development expenses	27	(3,918)	(26,144)	(7,398)
Other income	25	7,910	42,259	82,019
Other losses – net	26	(4,501)	(2,774)	(1,272)
Operating profit		307,623	312,168	390,621
Finance income		26,526	20,005	16,670
Finance costs		(55,299)	(64,064)	(80,299)
Finance costs – net	30	(28,773)	(44,059)	(63,629)
Share of results of associates	12	(955)	(367)	(121)
Profit before income tax		277,895	267,742	326,871
Income tax expense	31	(32,382)	(30,131)	(51,193)
Profit for the year		245,513	237,611	275,678
Profit attributable to:				
– The equity holders of the Company		245,513	237,611	274,993
– Non-controlling interests		–	–	685
		245,513	237,611	275,678
Other comprehensive income		–	–	–
Total comprehensive income for the year		245,513	237,611	275,678
Attributable to:				
– The equity holders of the Company		245,513	237,611	274,993
– Non-controlling interests		–	–	685
		245,513	237,611	275,678
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)				
– Basic and diluted earnings per share	33	0.34	0.33	0.38
Dividends	34	–	252,000	–

Consolidated Statements of Changes in Equity

	Note	Capital and reserves attributable to the equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2014		360,000	1,129,859	647,225	2,137,084	2,000	2,139,084
Comprehensive income:							
Profit for the year		–	–	245,513	245,513	–	245,513
Transactions with owners:							
Deemed distributions to the controlling shareholder of the Company	20(b)	–	(56,111)	–	(56,111)	–	(56,111)
Appropriations:							
Appropriation to statutory reserve	20(a)	–	25,314	(25,314)	–	–	–
As at 31 December 2014		360,000	1,099,062	867,424	2,326,486	2,000	2,328,486

	Note	Capital and reserves attributable to the equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015		360,000	1,099,062	867,424	2,326,486	2,000	2,328,486
Comprehensive income:							
Profit for the year		–	–	237,611	237,611	–	237,611
Transactions with owners:							
Increase in share capital by capitalisation of share premium	19(b)	360,000	(360,000)	–	–	–	–
Liquidation of a subsidiary		–	–	–	–	(2,000)	(2,000)
Deemed distributions to the controlling shareholder of the Company	20(b)	–	(95,189)	–	(95,189)	–	(95,189)
Deferred income tax assets arising from revaluation results	20(b)	–	2,407	–	2,407	–	2,407
Dividends declared and paid to the Company's shareholders	34	–	–	(252,000)	(252,000)	–	(252,000)
Appropriations:							
Appropriation to statutory reserve	20(a)	–	22,781	(22,781)	–	–	–
As at 31 December 2015		720,000	669,061	830,254	2,219,315	–	2,219,315
As at 1 January 2016		720,000	669,061	830,254	2,219,315	–	2,219,315
Comprehensive income:							
Profit for the year		–	–	274,993	274,993	685	275,678
Transactions with owners:							
Non-controlling interests arising on business combination	37	–	–	–	–	4,417	4,417
Appropriations:							
Appropriation to statutory reserve	20(a)	–	27,452	(27,452)	–	–	–
As at 31 December 2016		720,000	696,513	1,077,795	2,494,308	5,102	2,499,410

Consolidated Cash Flow Statements

	Note	Year ended 31 December 2014	2015	2016
		RMB'000	RMB'000	RMB'000
Cash flow from operating activities				
Cash (used in)/generated from operations	35(a)	(5,606)	1,078,073	145,762
Interest paid		(19,372)	(40,017)	(62,719)
Income tax paid		(36,114)	(31,068)	(26,394)
Net cash (used in)/generated from operating activities		(61,092)	1,006,988	56,649
Cash flow from investing activities				
Acquisition of subsidiaries, net of cash acquired	37	(45,481)	(150,233)	(99,670)
Increase in investments in associates		(14,539)	(200)	–
Purchase of land use right		–	–	(40,790)
Purchase of property, plant and equipment		(169,997)	(603,232)	(99,810)
Purchase of intangible assets		(1,989)	(8,165)	(4,173)
Proceeds from disposal of property, plant and equipment	35(b)	31	1	165
Funds granted to related parties	38(b)(iv)	(678,388)	(60,554)	(68,662)
Funds repayments received from related parties	38(b)(v)	549,442	68,256	67,902
Interest received		18,625	1,541	–
Net (increase)/decrease in the term deposits with initial term of over three months		(25,000)	25,000	–
Proceeds from disposal of land use rights	35(c)	–	–	6,834
Government grants received relating to purchase of property, plant and equipment		1,900	74,071	21,900
Government grants returned relating to purchase of property, plant and equipment	23(a)	–	–	(22,000)
Net cash used in investing activities		(365,396)	(653,515)	(238,304)

	Note	Year ended 31 December 2014	2015	2016
		RMB'000	RMB'000	RMB'000
Cash flows from financing activities				
Cash paid for disposal of non-controlling interests		–	(2,000)	–
Payments for listing expenses		–	(4,445)	(11,254)
Dividends declared and paid to the Company's shareholders	34	–	(252,000)	–
Net cash outflow arising from consideration paid to the controlling shareholder of the Company for acquisition of wastewater treatment business		(56,111)	(94,100)	(1,089)
Proceeds from borrowings		750,040	1,672,716	380,450
Repayments of borrowings		(530,019)	(888,342)	(827,155)
Net cash generated from/(used in) financing activities		163,910	431,829	(459,048)
Net (decrease)/increase in cash and cash equivalents		(262,578)	785,302	(640,703)
Cash and cash equivalents at beginning of the year		564,809	302,231	1,087,533
Cash and cash equivalents at end of the year		302,231	1,087,533	446,830

II NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION AND REORGANISATION

Kunming Dianchi Water Treatment Co., Ltd. (the "Company") was incorporated in Yunnan Province of the PRC on 23 December 2010 as a joint stock company with limited liabilities under the Company Law of the PRC. The registered office of the Company is located at Kunming Dianchi No. 7 Water Treatment Plant.

The Company and its subsidiaries (together, the "Group") are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

Prior to the incorporation of the Company, the above mentioned principal activities were carried out by the controlling shareholder of the Company, Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限公司 "KDI"), which is operating under the supervision and regulation of the State-Owned Assets Supervision and Administration Commission of Kunming (昆明市人民政府國有資產監督管理委員會, the "Kunming SASAC"). From 2010 to 2016, KDI gradually transferred the principal operations and businesses of water supply and wastewater treatment facilities (the "Listing Businesses") to the Company (the "Reorganisation").

Other than the Listing Businesses transferred to the Company in connection with the Reorganisation, the Company also made prepayments to purchase certain wastewater treatment facilities under construction from KDI and Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司, "Xindu Investment"), a company controlled by Kunming SASAC. Since these assets do not form a business, the Company treated such transactions as purchase of assets rather than business combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information is set out below. These policies have been consistently applied during the years ended 31 December 2014, 2015 and 2016 (the "Relevant Periods"), unless otherwise stated.

2.1 Basis of presentation

The wastewater treatment plants engaging in the Listing Businesses and now comprising the Group, were under common control of KDI, the controlling shareholder, immediately before and after the Reorganisation as described in Note 1. Accordingly, the Reorganisation is regarded as a business combination under common control.

For the purpose of this report, the Financial Information has been prepared by including the financial information of the wastewater treatment plants engaging in the Listing Businesses, which were under the common control of KDI immediately before and after the Reorganisation and now comprising the Group, as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of KDI, whichever is a shorter period.

The net assets of the combining companies were consolidated using the existing book values from KDI's perspective. No amount is recognized in consideration or goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

2.2 Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") and under the historical cost convention. The preparation of the Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

New standards, amendments and interpretations to existing standards that are effective during the Relevant Periods have been adopted and applied by the Group consistently throughout the Relevant Periods unless prohibited by the relevant standard to apply retrospectively.

(a) Going concern

As at 31 December 2015 and 2016, the current liabilities of the Group exceeded its current assets by approximately RMB59,012,000 and RMB466,188,000. In preparing the Financial Information, management has thoroughly assessed the going concern ability of the Group in association with the Group's current financial situation.

The Group has taken actions in dealing with the net working capital deficit mentioned above. It has been seeking new financing channels continuously and gaining adequate financing resources with banks and financial institutions to improve the Group's liquidity position. In light of the financing arrangements with certain commercial banks and the Group's fund raising history, management believes that the Group can continuously gain access to adequate financing resources for operation, payments of matured debts and capital expenditure. Accordingly, management believes that it is appropriate to prepare the Financial Information on a going concern basis. Please refer to Note 22(h) for the available bank borrowing facilities during the Relevant Periods.

(b) New standards and interpretations not yet adopted

Up to the date of this report, IASB has issued the following new standards, amendments to standards and interpretations which are relevant to the Group's operations but are not yet effective during the Relevant Periods and which have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base.	1 January 2017
Disclosure Initiative – Amendments to IAS 7	Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.	1 January 2017
IFRS 9 Financial Instruments and associated amendments to various other standards	IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.	1 January 2018

		Effective for annual periods beginning on or after
IFRS 15 Revenue from contracts with customers and associated amendments to various other standards	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.	1 January 2018
IFRS 16 Leases	IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time

The Group does not plan to early adopt any of these standards. For these new standards not yet effective, the Group had assessed the impact and does not expect any significant impact on the Group's operating result or financial position.

2.3 Subsidiaries

2.3.1 Consolidation

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

(a) Business combinations not under common control

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the consolidated statements of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

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

(b) Business combination under common control

The Financial Information incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is earlier.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

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

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

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated statements of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statements of comprehensive income.

2.3.2 Separate financial information

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2.4 Associates

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

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

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

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB") throughout the Relevant Periods, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within "finance costs — net". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within "other losses — net".

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

The Group received certain completed water supply or wastewater treatment facilities as capital injection from its controlling shareholder and undertakes the operation and maintenance of such facilities owned by the Group in the concession period, during which the Group can charge service fees based on the supplied water or treated wastewater to cover its costs of investment, operations and maintenance and obtain reasonable return, according to the concession agreement entered into by the Group and the governmental authority ("Transfer-Own-Operate" Model or "TOO Model"). Since the Group directed the use of the assets and controlled the significant residual interest in the assets under the TOO Model during the concession period and the Group has the exclusive priority right to extend its operation period and is not required to return these assets to the governmental authority at the end of the concession period, the fixed assets under the TOO Model are accounted for as property, plant and equipment.

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

	Years
Buildings and facilities	20 to 50 years
Machinery and equipment	8 to 18 years
Office and electronic equipment	3 to 10 years
Motor vehicles	8 to 10 years

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition as well as interest expenses during the periods of construction and installation. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses — net" in the consolidated statements of comprehensive income.

2.8 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The land use rights of certain land of the Group were contributed by KDI. The premium paid for such rights are treated as repayments for operating lease and recorded as land use rights, which are stated at cost less accumulative amortisation and accumulated impairment losses, if any. Land use rights are amortised over the lease period of 48 to 50 years using straight-line method.

2.9 Intangible assets

(i) Operating concessions

As described in Note 2.10, the Group engages with government authorities in the development, financing, operation and maintenance of wastewater treatment services ("concession services") over a specified period of time ("concession services period"). The Group has access to operate the wastewater treatment facilities to provide the concession services in accordance with the terms specified in the arrangement.

The Group recognises the related rights in the service concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the concession service and shall recognise a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Therefore intangible assets — concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 24.6 to 30 years.

(ii) Purchased computer software

Purchased computer software license are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over periods ranging from 5 to 10 years.

2.10 Service concession arrangements

The Group has entered into certain service concession arrangements with governmental authorities (the "Grantor"). The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangement and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Group carries out construction and upgrade work of the wastewater treatment and water supply facilities for the Grantor and receives in return a right to operate the service projects concerned for a specified period of time (the "Operation Period") in accordance with the pre-established conditions set by the Grantor, and the service projects should be transferred to the Grantor with nil consideration at the end of the Operation Period. A TOT arrangement is similar to a BOT arrangement except that the Group pays consideration for the right to operate the wastewater treatment and water supply facilities that have been built.

(a) Consideration given by the Grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantor for the construction and upgrade services rendered and/or the consideration paid and payable by the Group to the Grantor. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group specified or determinable amounts or the shortfall, if any, between amounts received from the users of the public services and specified or determinable amounts. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy for loans and receivables set out in Note 2.12.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public services, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the services. The intangible asset (operating concession) is accounted for in accordance with the policy set out in Note 2.9(i).

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration received or receivable from the Grantor.

(b) Construction and upgrade services

Revenue and costs relating to construction or upgrade services is accounted for in accordance with the policy set out in Note 2.27(c).

(c) Operating service

During the Operation Period of the service concession arrangements, receipts up to the level of the guarantee are treated as settlement of the financial asset. Additional amounts collected from users are recognised as revenue in accordance with the policy set out in Note 2.27(a). Costs for operating services are expensed in the period in which they are incurred.

(d) Contractual obligations to restore the facilities to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licenses, that is (i) to maintain the wastewater treatment plants it operates to a specified level of serviceability and/or (ii) 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 water treatment plants, except for upgrade element, are recognised and measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. In the opinion of the directors of the Company, the contractual obligations to maintain or restore infrastructure as at each balance sheet date of the Relevant Periods were not material to the Group.

2.11 Impairment of non-financial assets

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

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group only has financial assets classified as "loans and receivables" during the Relevant Periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "receivables under service concession arrangements", "term deposits with initial term of over three months" and "cash and cash equivalents", in the consolidated balance sheets (Note 16, Note 9, Note 18 and Note 17).

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.14 Impairment of financial assets carried at amortised cost

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.15 Construction contracts

A construction contract is defined by IAS 11, "Construction contracts", as a contract specifically negotiated for the construction of an asset. The Group's construction contracts refer to Build-Transfer (the "BT") arrangements. Under the BT arrangements, the Group carried out construction work of the wastewater treatment and water supply facilities and returned the assets to the count parties of the BT arrangements after completion of the construction.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage-of-completion" method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the consolidated balance sheets, the Group reports the net contract position for each contract as either an asset or a liability. Amount due from customers for construction contracts represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings. "Amount due to customers for construction contracts" represents a liability where the opposite is the case.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.17 Trade and other receivables

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

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

2.18 Cash and cash equivalents

In the consolidated cash flows statements, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.19 Share capital

Ordinary shares are classified as equity.

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

2.20 Trade and other payables

Trade payables are obligations to pay for goods, construction or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

2.22 Borrowings cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

2.23 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

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

2.24 Employee benefits

(a) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.25 Lease

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

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

2.26 Provision and contingent liabilities

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

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

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

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.27 Revenue recognition

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

(a) Rendering of wastewater treatment and other services

Revenue from wastewater treatment operation and other services is recognised when the services are rendered.

(b) Water supply services

Revenue from water supply services is recognised when a Group entity has delivered water to the customer; the customer has accepted the water and collectability of the related receivables is reasonably assured.

(c) Revenue from construction contracts

Revenue from construction service is recognised on the percentage-of-completion method, as further explained in the accounting policy set out in Note 2.15.

(d) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.28 Government grants

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

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred revenue and are credited to the consolidated statements of comprehensive income on a straight-line basis over the estimated useful lives of the related asset.

2.29 Research and development

Research expenditure is recognised as an expense as incurred.

When the future economic benefits become apparent as a project progresses into the development stage the costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company and the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group's activities do not expose it to significant foreign exchange risk because it principally operates in the PRC and RMB is the currency of the primary economic environment in which the Group operates.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing borrowings.

Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow or fair value interest-rate risk.

The interest rates and terms of repayments of borrowings are disclosed in Note 22.

As at 31 December 2014, 2015 and 2016, if the interest rate on borrowings had been higher/lower by 0.5%, the Group's net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

Group and Company

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Net profit (decrease)/increase			
– Higher 0.5%	(2,035)	(1,377)	(685)
– Lower 0.5%	2,035	1,377	685

(b) Credit risk

The carrying amounts of cash and cash equivalents, term deposits with initial term of over three months, trade and other receivables and receivables under service concession arrangements included in the Financial Information represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

All the cash and cash equivalents and term deposits with initial term of over three months, were deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality.

For trade and other receivables and receivables under service concession arrangements, the customers are primarily local governments and PRC state-owned entities. As at 31 December 2014, 2015 and 2016, the ageing analysis of trade receivables is set out in Note 16(a). Although the revenue is highly concentrated in the two customers (Note 5(d)), in the opinion of the directors of the Company, the collectability of long-aged receivables were not considered as high risk because the receivables were due from a local government and there is no material change in credit risk from this local government. In addition, there was not any significant long-aged receivables as at 31 December 2015 and 2016. Accordingly, the time value of the long-aged receivables is not significant. As such, no provision was made for receivables during the Relevant Periods.

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flows. All the borrowings are in compliance with relevant covenant terms and the Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Please refer to Note 2.2(a) and Note 22(h) for more analysis of liquidity risk and undrawn down bank borrowings facilities in a greater detail respectively.

Group

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014					
Borrowings	878,686	134,055	183,613	–	1,196,354
Interest payments on borrowings	28,014	–	–	–	28,014
Financial liabilities included in trade and other payables	180,383	–	–	–	180,383
	1,087,083	134,055	183,613	–	1,404,751
As at 31 December 2015					
Borrowings	796,705	484,980	748,324	–	2,030,009
Interest payments on borrowings	69,882	42,807	91,350	–	204,039
Financial liabilities included in trade and other payables	290,454	–	–	–	290,454
	1,157,041	527,787	839,674	–	2,524,502
As at 31 December 2016					
Borrowings	786,656	48,323	700,000	–	1,534,979
Interest payments on borrowings	48,331	30,450	91,350	–	170,131
Financial liabilities included in trade and other payables	283,867	–	–	–	283,867
	1,118,854	78,773	791,350	–	1,988,977

Company

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014					
Borrowings	878,686	134,055	183,613	–	1,196,354
Interest payments on borrowings	28,014	–	–	–	28,014
Financial liabilities included in trade and other payables	152,478	–	–	–	152,478
	1,059,178	134,055	183,613	–	1,376,846
As at 31 December 2015					
Borrowings	796,705	484,980	748,324	–	2,030,009
Interest payments on borrowings	69,882	42,807	91,350	–	204,039
Financial liabilities included in trade and other payables	248,990	–	–	–	248,990
	1,115,577	527,787	839,674	–	2,483,038
As at 31 December 2016					
Borrowings	786,656	48,323	700,000	-	1,534,979
Interest payments on borrowings	48,331	30,450	91,350	-	170,131
Financial liabilities included in trade and other payables	249,851	-	-	-	249,851
	1,084,838	78,773	791,350	-	1,954,961

The estimated amount of interest payments on borrowings are arrived based on the principal borrowing balance and prevailing interests rates at respective balance sheet dates up to the final maturity date of the borrowing agreements.

3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the Financial Information plus net debts.

The net gearing ratios as at 31 December 2014, 2015 and 2016 are as follows:

Group

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Total borrowings	1,142,915	1,950,852	1,520,732
Less: cash and cash equivalents	(302,231)	(1,087,533)	(446,830)
Net debt	840,684	863,319	1,073,902
Total equity	2,328,486	2,219,315	2,499,410
Total capital	3,169,170	3,082,634	3,573,312
Net gearing ratio	26.53%	28.01%	30.05%

Company

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Total borrowings	1,142,915	1,950,852	1,520,732
Less: cash and cash equivalents	(278,788)	(1,071,003)	(392,359)
Net debt	864,127	879,849	1,128,373
Total equity	2,291,567	2,259,628	2,511,638
Total capital	3,155,694	3,139,477	3,640,011
Net gearing ratio	27.38%	28.03%	31.00%

The increase in the net gearing ratio during the Relevant Periods is resulted primarily from increase in net debt to finance the construction projects as well as the acquisitions in 2014, 2015 and 2016 respectively.

3.3 Fair value estimation

(a) The Group adopts the amendment to IFRS 7 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The Group did not have any financial assets or liabilities that are subsequently measured at fair value during the Relevant Periods.

(b) Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate their carrying amounts:

- Trade and other receivables (except for prepayments);
- Receivables under service concession arrangements;
- Amounts due from customers for construction contract;
- Cash and cash equivalents;
- Term deposits with initial term of over three months;
- Trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax); and
- Borrowings.

The fair value of non-current receivables under service concession arrangements, non-current amounts due from customers for construction contracts and non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group and the Company for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Scope of applying IFRIC 12 for certain wastewater treatment facilities

In determining whether the wastewater treatment facilities fall into the scope of IFRIC 12 "service concession arrangements", the Group applied a lot of accounting judgements, including (i) whether the Grantor controls and can control any significant residual interest in the infrastructure asset; (ii) whether the Grantor is able to exercise control of the residual infrastructure through a call option to acquire the infrastructure asset at the end of the concession period; (iii) whether the Grantor is able to pledge the infrastructure during the whole concession period. For details of accounting policies for wastewater treatment facilities under different models, please refer to Note 2.7, 2.9 and 2.10.

(b) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation charges in future periods.

(c) Impairment of trade and other receivables and receivables under service concession arrangements

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables and receivables under service concession arrangements. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact on both the carrying amount of the receivables and the impairment charge in the period in which such estimate has been changed.

(d) Current and deferred income tax

The Group is subject to income taxes in different areas in the PRC. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(e) Percentage of completion of construction and service contracts

The Group recognises revenue for construction work and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction or service work based on the actual cost incurred over the total budgeted cost, where the corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimation of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

(f) Service concession arrangements

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration received or receivable from the Grantor. Significant judgement is exercised in determining the fair value of the financial receivable at initial recognition. Discount rates, estimates of future cash flows and other factors are used in the valuation process. Any change in the expected cash flows will result in change in the carrying value of the financial receivable.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of financial receivables on the consolidated balance sheets, (ii) interest income, which will be recognised as revenue in the consolidated statements of comprehensive income, and (iii) revenue from operating and maintaining the water treatment plants in the the consolidated statements of comprehensive income.

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 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.

The carrying amounts of the operation concession carried as intangible assets in the consolidated balance sheets as at 31 December 2014, 2015 and 2016 were RMB11,135,000, RMB44,778,000 and RMB49,901,000, respectively, while the receivables under service concession arrangements were RMB61,620,000, RMB250,033,000 and RMB351,623,000, respectively.

(g) Recognition of government grants

As at 31 December 2015 and 2016, the Group accrued government grant receivables of RMB27,535,000 and RMB51,590,000 (Note 16), respectively, for value-added tax refund. Management considered there is reasonable assurance that the value-added tax refund can be received pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, and the grants were continuously received in 2015 and 2016. When the expectation is different from the original estimate, such differences will impact the timing of recognition of government grants and reflect in the period in which such estimate is changed.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as executive directors of the Company. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective.

The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management service and transportation service.

The executive directors of the Company assess the performance of the operating segments based on the measurement of revenue and operating profit.

Unallocated assets consist of deferred income tax assets and investments in associates. Unallocated liabilities consist of deferred income tax liabilities and current income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, property, plant and equipment and intangible assets.

(a) Revenue from all services

The revenue of the Group for the years ended 31 December 2014, 2015 and 2016 are set out as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Wastewater treatment	680,584	702,666	765,906
Operating services – under TOO model	661,906	649,048	697,322
Operating services – under TOT/BOT model	3,398	8,858	28,122
Construction services – under BT model	716	11,933	3,761
Construction services – under BOT model	11,667	26,282	22,426
Finance income	2,897	6,545	14,275
Reclaimed water supply and running water supply	19,667	42,244	62,366
Operating services of reclaimed water supply – under TOO model	7,521	8,310	6,814
Operating services of running water supply – under TOT/BOT model	–	2,081	5,668
Construction services – under BT model	12,052	2,300	11,711
Construction services – under BOT model	94	28,740	36,261
Finance income	–	813	1,912
Others	34,974	80,197	86,653
Management services	26,549	74,557	75,941
Transportation services	2,835	1,973	2,914
Others	5,590	3,667	7,798
	735,225	825,107	914,925

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2014 is as follows:

	For the year ended 31 December 2014			
Business segment	**Wastewater treatment**	**Water supply**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Revenue from external customers	680,584	19,667	34,974	735,225
Segment gross profit	360,274	4,583	498	365,355
Segment profit	305,254	1,634	735	307,623
Finance income				26,526
Finance costs				(55,299)
Share of results of associates				(955)
Profit before income tax				277,895
Other information				
Depreciation of property, plant and equipment	130,455	703	196	131,354
Amortisation of land use rights	7,495	–	–	7,495
Amortisation of intangible assets	2,597	–	–	2,597
Capital expenditure	130,963	28,654	–	159,617

	As at 31 December 2014			
Business segment	**Wastewater treatment**	**Water supply**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Segment assets	3,538,612	199,616	2,242	3,740,470
Unallocated:				
Deferred income tax assets				14,758
Investments in associates				15,389
Total assets				3,770,617
Segment liabilities	1,410,572	5,797	2,899	1,419,268
Unallocated:				
Deferred income tax liabilities				3,798
Current income tax liabilities				19,065
Total liabilities				1,442,131

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2015 is as follows:

	For the year ended 31 December 2015			
Business segment	**Wastewater treatment**	**Water supply**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Revenue from external customers	702,666	42,244	80,197	825,107
Segment gross profit	343,366	4,679	30,095	378,140
Segment profit	280,741	1,241	30,186	312,168
Finance income				20,005
Finance costs				(64,064)
Share of results of associates				(367)
Profit before income tax				267,742
Other information				
Depreciation of property, plant and equipment	136,176	2,801	244	139,221
Amortisation of land use rights	7,495	–	–	7,495
Amortisation of intangible assets	3,066	–	–	3,066
Capital expenditure	381,600	26,353	–	407,953

	As at 31 December 2015			
Business segment	**Wastewater treatment**	**Water supply**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Segment assets	4,525,422	291,434	3,719	4,820,575
Unallocated:				
Deferred income tax assets				25,142
Investments in associates				15,222
Total assets				4,860,939
Segment liabilities	2,598,869	8,773	3,881	2,611,523
Unallocated:				
Deferred income tax liabilities				5,214
Current income tax liabilities				24,887
Total liabilities				2,641,624

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2016 is as follows:

Business segment	For the year ended 31 December 2016 Wastewater treatment	Water supply	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	765,906	62,366	86,653	914,925
Segment gross profit	386,938	3,292	35,251	425,481
Segment profit	355,229	(468)	35,860	390,621
Finance income				16,670
Finance costs				(80,299)
Share of results of associates				(121)
Profit before income tax				326,871
Other information				
Depreciation of property, plant and equipment	157,011	4,642	709	162,362
Amortisation of land use rights	8,646	–	–	8,646
Amortisation of intangible assets	3,812	–	–	3,812
Capital expenditure	651,030	17,034	86	668,150

Business segment	As at 31 December 2016 Wastewater treatment	Water supply	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	4,220,160	331,504	13,029	4,564,693
Unallocated:				
Deferred income tax assets				23,697
Investments in associates				15,101
Total assets				4,603,491
Segment liabilities	2,036,766	9,494	3,932	2,050,192
Unallocated:				
Deferred income tax liabilities				9,321
Current income tax liabilities				44,568
Total liabilities				2,104,081

(c) Geographical information

The Group has derived all of its business in the PRC, hence, geographical segment information is not considered necessary.

(d) Information about major customers

The major customer groups from whom the individual customer's revenue amounted to 10% or more of the Group's total revenue were as below:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Customer A	432,947	431,433	487,008
Customer B	228,712	217,510	191,066
	661,659	648,943	678,074

The customer portfolio of the Group is concentrated, which is consistent with the industry practise. If the customer A or customer B substantially defaults in payment or terminates the business relationship with the Group, it could materially affect the Group's financial position and results of operations.

6 LAND USE RIGHTS

Group

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Cost	385,035	385,035	479,091
Accumulated amortisation	(29,980)	(37,475)	(45,607)
Net book value	355,055	347,560	433,484
Opening net book value	362,550	355,055	347,560
Additions	–	–	98,984
Disposals	–	–	(4,414)
Amortisation charges *(Note (a))*	(7,495)	(7,495)	(8,646)
Closing net book value	355,055	347,560	433,484

(a) Amortisation of land use rights has been charged to the consolidated statements of comprehensive income (Note 27) as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cost of sales	7,495	7,495	8,646

Company

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cost	342,239	399,450	492,885
Accumulated depreciation	(12,092)	(19,061)	(27,937)
Net book value	330,147	380,389	464,948
Opening net book value	279,840	330,147	380,389
Additions	56,111	57,211	98,984
Disposals	–	–	(5,143)
Amortisation charges	(5,804)	(6,969)	(9,282)
Closing net book value	330,147	380,389	464,948

Certain land use rights of the Company amounting to RMB399,450,000 were purchased from KDI as a part of Listing Businesses before 2016. These land use rights were included in the consolidated financial statements at their predecessor costs as if they had been combined from the earliest period of the Relevant Periods, while they were included in the Company's separate financial statement at fair values based on the valuation results in the period when they were legally transferred to the Company.

7 LONG TERM PREPAYMENTS

Group and Company

The Company made prepayments to KDI to purchase four wastewater treatment facilities under construction stage during the Relevant Periods. According to the purchase agreement, the ownership of these wastewater treatment facilities will not be transferred to the Company unless KDI complete the construction and pass the required quality testing. In January 2016, KDI had completed the construction of certain three wastewater treatment facilities and transferred the ownership of these assets to the Company of RMB413,950,000.

As at 31 December 2014, 2015 and 2016, some of the wastewater treatment facilities were still in the progress of quality testing and the underlying prepayments amounted to RMB413,950,000, RMB863,950,000 and RMB450,000,000 respectively.

8 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014						
Cost	1,106,419	677,532	45,702	21,405	241,829	2,092,887
Accumulated depreciation	(161,066)	(220,774)	(20,731)	(9,242)	–	(411,813)
Net book value	945,353	456,758	24,971	12,163	241,829	1,681,074
Year ended 31 December 2014						
Opening net book value	945,353	456,758	24,971	12,163	241,829	1,681,074
Additions	126	8,477	839	1,934	146,252	157,628
Transfer	8,542	44,715	10,362	–	(63,619)	–
Acquisition of subsidiaries *(Note 37)*	–	–	15	41	–	56
Disposals	(467)	(3,649)	(4)	(3)	–	(4,123)
Depreciation *(Note 27)*	(55,183)	(65,770)	(7,877)	(2,524)	–	(131,354)
Closing net book value	898,371	440,531	28,306	11,611	324,462	1,703,281
At 31 December 2014						
Cost	1,114,367	716,507	56,892	23,280	324,462	2,235,508
Accumulated depreciation	(215,996)	(275,976)	(28,586)	(11,669)	–	(532,227)
Net book value	898,371	440,531	28,306	11,611	324,462	1,703,281
Year ended 31 December 2015						
Opening net book value	898,371	440,531	28,306	11,611	324,462	1,703,281
Additions	184,566	17,222	15,939	5,352	176,709	399,788
Transfer	43,527	61,070	6,947	–	(111,544)	–
Disposals	(2,830)	–	–	(1)	–	(2,831)
Depreciation *(Note 27)*	(57,506)	(67,830)	(10,997)	(2,888)	–	(139,221)
Closing net book value	1,066,128	450,993	40,195	14,074	389,627	1,961,017
At 31 December 2015						
Cost	1,338,988	794,799	79,778	28,611	389,627	2,631,803
Accumulated depreciation	(272,860)	(343,806)	(39,583)	(14,537)	–	(670,786)
Net book value	1,066,128	450,993	40,195	14,074	389,627	1,961,017
Year ended 31 December 2016						
Opening net book value	1,066,128	450,993	40,195	14,074	389,627	1,961,017
Additions	343,882	75,111	30,779	1,422	113,800	564,994
Transfer	98,740	1,326	1,147	2,228	(103,441)	-
Acquisition of subsidiaries *(Note 37)*	5,039	3,298	103	350	34	8,824
Disposals	(3,343)	(14)	-	(27)	-	(3,384)
Depreciation *(Note 27)*	(72,856)	(73,429)	(12,782)	(3,295)	-	(162,362)
Closing net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089
At 31 December 2016						
Cost	1,783,245	874,146	111,807	32,402	400,020	3,201,620
Accumulated depreciation	(345,655)	(416,861)	(52,365)	(17,650)	-	(832,531)
Net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089

(a) The net book value of property, plant and equipment pledged as collateral for the Group's borrowings (Note 22) as at the respective balance sheet dates were as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Buildings and facilities	344,500	321,688	298,705
Machinery and equipment	196,509	166,835	137,722
	541,009	488,523	436,427

(b) Depreciation of property, plant and equipment has been charged to the consolidated statements of comprehensive income (Note 27) as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cost of sales	128,761	136,466	158,388
Administrative expenses	2,593	2,755	3,974
	131,354	139,221	162,362

(c) As of respective balance sheet dates of the relevant periods, the Group is still in the process of applying for the building ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB59,086,000, RMB60,259,000 and RMB59,459,000, respectively.

(d) During the years ended 31 December 2014, 2015 and 2016, the Group has capitalised borrowing costs amounting to RMB17,508,000, RMB11,337,000 and RMB8,544,000 on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 7.19%, 6.53% and 5.07%, respectively.

(e) Certain wastewater treatment facilities of the Company were purchased from KDI or transferred from KDI in the form of capital injection before 2016. In accordance with relevant accounting principles and regulations applicable to PRC enterprises, these wastewater treatment facilities were re-measured at fair values based on a valuation report from a qualified independent third party valuer, after being approved by relevant government authorities, in the Company's separate financial statements, while measured at the predecessor cost in the Group's consolidated financial statements, because these wastewater treatment facilities form a part of the Listing Businesses. The difference between the carrying amount and the fair value, net of the deferred tax impact (Note 13), was recorded as a debit to "other reserves" in the Group's consolidated financial statements.

Company

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014						
Cost	1,064,978	605,826	36,945	6,892	240,849	1,955,490
Accumulated depreciation	(146,948)	(146,451)	(14,195)	(1,971)	–	(309,565)
Net book value	918,030	459,375	22,750	4,921	240,849	1,645,925
Year ended 31 December 2014						
Opening net book value	918,030	459,375	22,750	4,921	240,849	1,645,925
Additions	82	7,175	430	793	141,910	150,390
Transfer	8,542	44,715	10,362	–	(63,619)	–
Disposals	(435)	(4,091)	(4)	(3)	–	(4,533)
Depreciation	(55,077)	(66,240)	(7,602)	(874)	–	(129,793)
Closing net book value	871,142	440,934	25,936	4,837	319,140	1,661,989
At 31 December 2014						
Cost	1,072,947	639,929	47,703	7,585	319,140	2,087,304
Accumulated depreciation	(201,805)	(198,995)	(21,767)	(2,748)	–	(425,315)
Net book value	871,142	440,934	25,936	4,837	319,140	1,661,989
Year ended 31 December 2015						
Opening net book value	871,142	440,934	25,936	4,837	319,140	1,661,989
Additions	211,133	15,700	14,580	4,487	171,897	417,797
Transfer	42,439	61,070	6,109	–	(109,618)	–
Disposals	(2,972)	–	(95)	(137)	–	(3,204)
Depreciation	(58,589)	(66,926)	(10,705)	(1,120)	–	(137,340)
Closing net book value	1,063,153	450,778	35,825	8,067	381,419	1,939,242
At 31 December 2015						
Cost	1,322,878	716,699	68,231	11,825	381,419	2,501,052
Accumulated depreciation	(259,725)	(265,921)	(32,406)	(3,758)	–	(561,810)
Net book value	1,063,153	450,778	35,825	8,067	381,419	1,939,242
Year ended 31 December 2016						
Opening net book value	1,063,153	450,778	35,825	8,067	381,419	1,939,242
Additions	339,774	73,087	27,708	-	113,396	553,965
Transfer	98,740	1	-	-	(98,741)	-
Disposals	(3,343)	(14)	-	(6)	-	(3,363)
Depreciation	(71,739)	(71,889)	(11,863)	(1,250)	-	(156,741)
Closing net book value	1,426,585	451,963	51,670	6,811	396,074	2,333,103
At 31 December 2016						
Cost	1,757,988	789,399	95,939	11,638	396,074	3,051,038
Accumulated depreciation	(331,403)	(337,436)	(44,269)	(4,827)	-	(717,935)
Net book value	1,426,585	451,963	51,670	6,811	396,074	2,333,103

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain arrangements with governmental authorities in the PRC under TOT or BOT models in respect of its wastewater treatment and water supply services (the "Facilities"). These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for those arrangements under TOT models; (ii) constructing the Facilities for those arrangements under BOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 24.6 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the service concession periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

As further explained in the accounting policy for "service concession arrangements" set out in Note 2.10 to the Financial Information, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) (Note 10) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The effective interest rate fell within the range from 6.51% to 9.23%.

The following is the summarised information of the financial asset component (receivable under a service concession arrangement) with the respect to the Group and Company's service concession arrangements.

Group

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Receivables under service concession arrangements			
Current portion:	4,160	6,132	9,679
Non-current portion:	57,460	243,901	341,944
	61,620	250,033	351,623

Company

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Receivables under service concession arrangements			
Non-current portion:	11,761	66,782	125,469

In respect of the Group and Company's receivables under service concession arrangements, various group companies have different credit policies, depending on the locations in which they operate. Collection of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of the Group's service concession arrangements. Based on past experience, the directors of the Company 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 still considered fully recoverable.

The directors of the Company are of the view that, as at 31 December 2014, 2015 and 2016, none of the receivables under service concession arrangements is past due and impaired.

10 INTANGIBLE ASSETS

Group

	Computer software	Operating concession	Development cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014				
Cost	20,262	–	–	20,262
Accumulated amortisation	(1,659)	–	–	(1,659)
Net book value	18,603	–	–	18,603
Year ended 31 December 2014				
Opening net book value	18,603	–	–	18,603
Additions	1,549	–	440	1,989
Acquisition of subsidiaries *(Note 37)*	–	11,406	–	11,406
Amortisation *(Note 27)*	(2,326)	(271)	–	(2,597)
Closing net book value	17,826	11,135	440	29,401
At 31 December 2014				
Cost	21,811	11,406	440	33,657
Accumulated amortisation	(3,985)	(271)	–	(4,256)
Net book value	17,826	11,135	440	29,401
Year ended 31 December 2015				
Opening net book value	17,826	11,135	440	29,401
Additions	561	–	7,604	8,165
Acquisition of subsidiaries *(Note 37)*	–	34,147	–	34,147
Amortisation *(Note 27)*	(2,562)	(504)	–	(3,066)
Closing net book value	15,825	44,778	8,044	68,647
At 31 December 2015				
Cost	22,372	45,553	8,044	75,969
Accumulated amortisation	(6,547)	(775)	–	(7,322)
Net book value	15,825	44,778	8,044	68,647
Year ended 31 December 2016				
Opening net book value	15,825	44,778	8,044	68,647
Additions	1,351	–	2,822	4,173
Acquisition of subsidiaries *(Note 37)*	–	6,189	–	6,189
Amortisation *(Note 27)*	(2,746)	(1,066)	–	(3,812)
Closing net book value	14,430	49,901	10,866	75,197
At 31 December 2016				
Cost	23,723	51,742	10,866	86,331
Accumulated amortisation	(9,293)	(1,841)	–	(11,134)
Net book value	14,430	49,901	10,866	75,197

(a) Amortisation of intangible assets has been charged to the consolidated statements of comprehensive income (Note 27) as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Cost of sales	271	504	1,066
Administrative expenses	2,326	2,562	2,746
	2,597	3,066	3,812

(b) Impairment assessment

(i) Operating concession

The recoverable amount of operation concession which are not yet available for use is determined based on the value-in-use calculation using cash flow projections, based on financial forecast approved by management. And management's assumptions and estimation including forecast of utilisation, discount rate and useful lives of 26 to 28 years. The discount rate used in measuring value-in-use was 11% to 12%, which are pre-tax and reflect special risk relating to operating concessions.

(ii) Development cost

The recoverable amount is determined based on the value-in-use calculation using cash flow projections, based on financial forecast on cost savings approved by management and management's assumptions and estimation including forecast of cost savings, discount rate and useful life of 15 years after the expected completion date of the development in 2017. The discount rate used in measuring value-in-use was 16%, which is pre-tax and reflect special risk relating to development cost.

Company

	Computer software	**Development cost**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
At 1 January 2014			
Cost	20,262	–	20,262
Accumulated amortisation	(1,659)	–	(1,659)
Net book value	18,603	–	18,603
Year ended 31 December 2014			
Opening net book value	18,603	–	18,603
Additions	1,549	440	1,989
Amortisation	(2,326)	–	(2,326)
Closing net book value	17,826	440	18,266
At 31 December 2014			
Cost	21,811	440	22,251
Accumulated amortisation	(3,985)	–	(3,985)
Net book value	17,826	440	18,266

	Computer software	Development cost	Total
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015			
Opening net book value	17,826	440	18,266
Additions	473	7,604	8,077
Amortisation	(2,562)	–	(2,562)
Closing net book value	15,737	8,044	23,781
At 31 December 2015			
Cost	22,284	8,044	30,328
Accumulated amortisation	(6,547)	–	(6,547)
Net book value	15,737	8,044	23,781
Year ended 31 December 2016			
Opening net book value	15,737	8,044	23,781
Additions	1,291	2,822	4,113
Amortisation	(2,683)	–	(2,683)
Closing net book value	14,345	10,866	25,211
At 31 December 2016			
Cost	23,575	10,866	34,441
Accumulated amortisation	(9,230)	–	(9,230)
Net book value	14,345	10,866	25,211

11 INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Investment at cost:			
Unlisted shares	61,090	208,008	271,629

Particulars of the Company's subsidiaries are set out in Note 39.

12 INVESTMENTS IN ASSOCIATES

Investments accounted for using the equity method refer to the associates held by the Group and the Company, a movement of which is set out as follows.

Group

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Beginning of the year	1,805	15,389	15,222
Additions	14,539	200	–
Share of associates' results	(955)	(367)	(121)
End of the year	15,389	15,222	15,101

Particulars of the Group's investments in associates during the Relevant Periods, which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group during the Relevant Periods — As at 31 December 2014	2015	2016	Principal activities
Kunming Dianchi Information Construction Management Co., Ltd. (昆明滇池信息建設管理有限公司, "Dianchi Information")	PRC, 14 May 2012	2,500	40%	40%	40%	Construction of the communication pipeline
Yunnan Dianchi Jiajing Environmental Technology Co., Ltd. (雲南滇池嘉淨環保科技有限公司, "Dianchi Jiajing")	PRC, 13 April 2012	11,600	40%	40%	40%	Research and promotion of the environment technology
Kunming Zaojing Quanxiang Biological Technology Co., Ltd. (昆明藻井泉香生物科技有限公司, "Kunming Zaojing")	PRC, 12 August 2010	8,000	35%	35%	35%	Research and development of the biological products

The Group's investments in associates and certain of their combined key financial information attributable to the Group are as follows:

Year	Assets	Liabilities	Revenues	Losses	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014	10,840	4,209	269	(955)	6,631
Year ended 31 December 2015	10,147	3,883	653	(367)	6,264
Year ended 31 December 2016	9,335	3,192	728	(121)	6,143

No individual associate is considered as material to the Group.

Company

	As at 31 December 2014	2015	2016
	RMB'000	RMB'000	RMB'000
Investment at cost:			
Unlisted shares	17,739	17,939	17,939

13 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Group

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Deferred income tax assets:			
– to be recovered within 12 months	1,465	949	1,468
– to be recovered after more than 12 months	13,293	24,193	22,229
	14,758	25,142	23,697
Deferred income tax liabilities:			
– to be recovered within 12 months	124	131	149
– to be recovered after more than 12 months	3,674	5,083	9,172
	3,798	5,214	9,321

Movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets	**Tax losses carried forward** *(Note (a))*	**Government grant**	**Depreciation and amortisation differences arising from the revaluation results**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2014	2,064	5,574	6,153	13,791
Recognised in the consolidated statements of comprehensive income	1,301	589	(656)	1,234
At 31 December 2014	3,365	6,163	5,497	15,025
Recognised in the consolidated statements of comprehensive income	(1,760)	10,420	(392)	8,268
Recognised directly in the equity *(Note (b))*	–	–	2,407	2,407
At 31 December 2015	1,605	16,583	7,512	25,700
Recognised in the consolidated statements of comprehensive income	(300)	(523)	(473)	(1,296)
At 31 December 2016	1,305	16,060	7,039	24,404

(a) Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. Carrying forward of these tax losses will expire, if unused, in the years ending 31 December 2017 to 31 December 2021.

(b) As described in Note 6 and Note 8, certain wastewater treatment facilities and land use rights were recorded at the carrying amounts from KDI's perspective in the consolidated financial statements, which are different from tax bases of these assets. The deferred income tax assets arising from such differences were initially recognised as a credit to reserve.

Deferred income tax liabilities	Fair value adjustment arising from acquisition of subsidiaries	Differences arising from service concession receivables	Differences arising from construction contracts	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	–	–	112	230	342
Acquisition of subsidiaries *(Note 37)*	3,327	–	–	–	3,327
Recognised in the consolidated statements of comprehensive income	(93)	564	40	(115)	396
At 31 December 2014	3,234	564	152	115	4,065
Acquisition of subsidiaries *(Note 37)*	198	–	–	–	198
Recognised in the consolidated statements of comprehensive income	(127)	1,344	263	29	1,509
At 31 December 2015	3,305	1,908	415	144	5,772
Acquisition of subsidiaries *(Note 37)*	434	–	–	–	434
Recognised in the consolidated statements of comprehensive income	(142)	3,818	280	(134)	3,822
At 31 December 2016	3,597	5,726	695	10	10,028

Company

Deferred income tax assets and liabilities at the 31 December of 2014, 2015 and 2016, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Deferred income tax assets:			
– to be recovered within 12 months	952	850	1,130
– to be recovered after more than 12 months	5,211	15,733	14,930
	6,163	16,583	16,060
Deferred income tax liabilities:			
– to be recovered within 12 months	143	68	10
– to be recovered after more than 12 months	124	491	695
	267	559	705
Deferred income tax assets – net:	5,896	16,024	15,355

Movement in deferred income tax assets and liabilities during the Relevant Periods, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets	Government grant
	RMB'000
At 1 January 2014	5,574
Recognised in the consolidated statements of comprehensive income	589
At 31 December 2014	6,163
Recognised in the consolidated statements of comprehensive income	10,420
At 31 December 2015	16,583
Recognised in the consolidated statements of comprehensive income	(523)
At 31 December 2016	16,060

Deferred income tax liabilities	Differences arising from construction contracts	Others	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2014	112	230	342
Recognised in the consolidated statements of comprehensive income	40	(115)	(75)
At 31 December 2014	152	115	267
Recognised in the consolidated statements of comprehensive income	263	29	292
At 31 December 2015	415	144	559
Recognised in the consolidated statements of comprehensive income	280	(134)	146
At 31 December 2016	695	10	705

14 INVENTORIES

Group

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Materials for wastewater treatment and water distribution services	1,425	1,835	4,245
Spare parts	4,997	4,770	6,091
	6,422	6,605	10,336

No provision for inventories has been made during the Relevant Periods.

The cost of inventories recognised as cost of sales amounted to approximately RMB32,616,000, RMB38,402,000 and RMB42,710,000, for the years ended 31 December 2014, 2015 and 2016, respectively.

Company

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Materials for wastewater treatment and water distribution services	590	653	1,521
Spare parts	2,442	2,482	2,682
	3,032	3,135	4,203

15 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Group and Company

Costs incurred to date plus recognised profits less recognised losses:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Costs incurred to date plus recognised profits less recognised losses			
Current portion:	5,940	6,104	5,716
Non-current portion:	19,910	28,485	35,573
	25,850	34,589	41,289

16 TRADE AND OTHER RECEIVABLES

Group

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Trade receivables *(Note (a))*:			
– Third parties	214	439	941
– Related parties *(Note 38)*	27,899	87,728	39,678
– Local government	585,256	9,417	85,381
Trade receivables – net	613,369	97,584	126,000
Other receivables:			
– Third parties	1,988	25,313	6,539
– Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, "Hongze Water") *(Note b)*	–	–	41,725
– Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "Qutang Water") *(Note b)*	–	–	3,744
– Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "Libao Water") *(Note b)*	–	–	2,279
– Related parties *(Note 38)*	201,078	24,020	39,472
– Local government	–	27,535	51,590
Other receivables – net	203,066	76,868	145,349
Prepayments:			
– Listing expenses	–	13,521	28,946
– Others	1,225	1,789	6,600
Prepayments – net	1,225	15,310	35,546
Trade and other receivables – net	817,660	189,762	306,895

As at 31 December 2014, 2015 and 2016, the fair value of the current portion of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2014, 2015 and 2016, the carrying amounts of trade and other receivables are denominated in RMB.

(a) Ageing analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates, are as follows:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
– Within one year	464,324	95,502	125,542
– Over one year and within two years	149,045	2,082	458
	613,369	97,584	126,000

Based on the past experiences, the directors believe that no impairment allowance is necessary because the customers are mainly local government authorities in Kunming and related parties and there has not been a significant change in their credit quality. Accordingly, these long-aged balances are considered fully recoverable.

The Group does not hold any collateral as security over these debtors.

(b) RMB41,725,000, RMB3,744,000 and RMB2,279,000 was granted to Hongze Water, Qutang Water and Libao Water respectively and all of the three companies were acquired by the Group in January 2017.

Company

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Trade receivables:			
– Third parties	–	–	–
– Related parties *(Note 38)*	27,899	87,727	39,678
– Local government	581,831	–	66,057
Trade receivables – net	609,730	87,727	105,735
Other receivables:			
– Third parties	1,264	51,696	4,992
– Hongze Water	–	–	41,725
– Qutang Water	–	–	3,744
– Libao Water	–	–	2,279
– Related parties *(Note 38)*	218,939	40,515	81,439
– Local government	–	27,037	49,306
Other receivables – net	220,203	92,211	183,485
Prepayments:			
– Listing expenses	–	13,521	28,946
– Others	487	1,085	4,586
Prepayments – net	487	14,606	33,532
Trade and other receivables – net	830,420	194,544	322,752

17 CASH AND CASH EQUIVALENTS

Group

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Cash and cash equivalents *(Note (a))*	302,231	1,087,533	446,830

(a) All cash and cash equivalents are denominated in RMB.

(b) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates ranged from 0.35% to 1.54% during the Relevant Periods.

Company

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	278,788	1,071,003	392,359

18 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

Group and Company

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Term deposits with initial term of over three months	25,000	–	–

The Group's term deposits with initial term of over three months are deposited in banks in the PRC. Management believes these deposits are of high credit quality and expects low credit risks in this aspect. The Group's term deposits with initial term of over three months are denominated in RMB.

The weighted average effective interest rates per annum on term deposits with initial term of over three months of the Group ranged from 3.60% to 3.62% for the years ended 31 December 2014 and 2015.

The maximum exposure to credit risk from the above term deposits with initial term of over three months at 31 December 2014 approximated the Group's carrying amounts.

19 SHARE CAPITAL

Group and Company

	As at 31 December		
	2014	2015	2016
Registered, issued and fully paid			
Number of shares (in thousand)	360,000	720,000	720,000
Share capital (in RMB'000)	360,000	720,000	720,000

(a) The Company was established on 23 December 2010, with an initial registered share capital of RMB360,000,000, divided into 360,000,000 shares with a nominal value of RMB1.00 each. 344,943,000 shares or 95.82% equity interest amounting to RMB1,260,091,000 were issued to KDI at a premium of RMB915,148,000, in exchange for the property, plant and equipment and land use rights under TOO Model of RMB1,189,277,000, certain investments in subsidiaries of RMB5,814,000, and cash of RMB65,000,000. The remaining 15,057,000 shares or 4.18% equity interest amounting to RMB55,000,000 were issued to other four shareholders at a premium of RMB39,943,000, Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "DIG"), Kunming Industrial Development and Investment Co., Ltd. (昆明產業開發投資有限責任公司, "IDI"), Kunming State-owned Assets Management and Operation Co., Ltd. (昆明市國有資產管理運營有限責任公司, "Kunming State-Owned Asset Management") and Kunming Xindu Real Estate Co., Ltd. (昆明新都置業有限公司, "Xindu Real Estate").

The capital contributions were paid up by two instalments. The first instalment of RMB1,208,841,000 was received upon the establishment of the Company and the second instalment of RMB106,250,000 was received in the year ended 31 December 2012. The excess of the assets or cash consideration received by the Company over the share capital with the amount of RMB955,091,000 was recorded as share premium. In 2015, RMB360,000,000 was converted from share premium into share capital.

(b) On 12 October 2015, as approved by the shareholders of the Company, the Company increased its share capital by issuing 360,000,000 ordinary shares of RMB1.00 each. The consideration for these newly issued ordinary shares was satisfied for by way of capitalisation of share premium of RMB360,000,000 to share capital.

20 OTHER RESERVES

Group

	Share premium	Statutory reserve	Capital reserve	Total
	(Note 19)	(Note (a))	(Note (b))	
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	955,091	73,668	101,100	1,129,859
Appropriation to statutory reserves	–	25,314	–	25,314
Deemed distributions to KDI by the Group	–	–	(56,111)	(56,111)
At 31 December 2014	955,091	98,982	44,989	1,099,062
Appropriation to statutory reserves	–	22,781	–	22,781
Deemed distributions to KDI by the Group	–	–	(95,189)	(95,189)
Deferred tax assets arising from revaluation results *(Note 13)*	–	–	2,407	2,407
Increase in share capital by capitalisation of share premium	(360,000)	–	–	(360,000)
At 31 December 2015	595,091	121,763	(47,793)	669,061
Appropriation to statutory reserves	–	27,452	–	27,452
At 31 December 2016	595,091	149,215	(47,793)	696,513

(a) Statutory reserve

In accordance with the PRC Company Law and the articles of association of the PRC companies of the Group (the "PRC Companies"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

(b) Capital reserve

Capital reserve mainly represented the existing book value from KDI's prospective of certain acquired wastewater treatment facilities and land use rights transferred to the Group from KDI, which did not form part of the capital contribution in the form of share capital in 2010 (Note 19(a)), netting of the consideration of these assets and the deferred tax impact. These wastewater treatment facilities and land use rights were included in the consolidated financial statements as if they had been consolidated from the earliest period presented.

Company

	Share premium	Statutory reserve	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2014	955,091	73,557	1,028,648
Appropriation to statutory reserves	–	24,987	24,987
At 31 December 2014	955,091	98,544	1,053,635
Appropriation to statutory reserves	–	21,969	21,969
Increase in share capital by capitalisation of share premium	(360,000)	–	(360,000)
At 31 December 2015	595,091	120,513	715,604
Appropriation to statutory reserves	–	25,190	25,190
At 31 December 2016	595,091	145,703	740,794

21 RETAINED EARNINGS

	Group	Company
	RMB'000	RMB'000
At 1 January 2014	647,225	652,089
Profit for the year	245,513	250,830
Appropriation to statutory reserves *(Note 20)*	(25,314)	(24,987)
At 31 December 2014	867,424	877,932
Profit for the year	237,611	220,061
Appropriation to statutory reserves *(Note 20)*	(22,781)	(21,969)
Dividends declared and paid to the Company's shareholders *(Note 34)*	(252,000)	(252,000)
At 31 December 2015	830,254	824,024
Profit for the year	274,993	252,010
Appropriation to statutory reserves *(Note 20)*	(27,452)	(25,190)
At 31 December 2016	1,077,795	1,050,844

22 BORROWINGS

Group and Company

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Non-current:			
Unsecured long-term borrowings	–	310,000	–
Secured long-term borrowings *(Note (b))*	288,887	167,908	48,356
Corporate bonds *(Note (c))*	–	692,731	693,639
Total non-current borrowings	288,887	1,170,639	741,995
Current:			
Unsecured short-term borrowings	739,640	660,000	660,000
Secured short-term borrowings *(Note (b))*	114,388	120,213	118,737
Total current borrowings	854,028	780,213	778,737
Total borrowings	1,142,915	1,950,852	1,520,732

(a) All the borrowings were denominated in RMB.

(b) As at 31 December 2014, 2015 and 2016, analysis of the secured borrowings are as follows:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Secured by:			
Property, plant and equipment *(Note 8)*	403,275	288,121	167,093

(c) As approved by the National Development and Reform Commission on 25 November 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum on 25 December 2015. At the end of the fifth year, the Company can adjust the interest rate within a range of 0.00% to 3.00% for the remaining 2-year period, and the investors have an option to request early redemption at par value of the outstanding corporate bond if they don't agree the adjusted interest rate.

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is earlier are as follows:

	6 months or less	**Between 6 and 12 months**	**Between 1 and 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
As at 31 December 2014	836,845	306,070	–	1,142,915
As at 31 December 2015	618,121	330,000	1,002,731	1,950,852
As at 31 December 2016	317,093	510,000	693,639	1,520,732

(e) The maturity of borrowings is as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
On demand or within 1 year	854,028	780,213	778,737
Between 1 and 2 years	123,187	430,769	48,356
Between 2 and 5 years	165,700	47,139	–
Later than 5 years	–	692,731	693,639
	1,142,915	1,950,852	1,520,732

(f) The weighted average effective interest rates for borrowings at each balance sheet date are as follows:

	As at 31 December		
	2014	2015	2016
Borrowings	7.23%	5.48%	4.78%

Interest rates of borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

(g) The fair values of current borrowings equal their carrying amount as the discounting impact is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of non-current borrowings approximated to their carrying amount.

(h) The Group had the following undrawn bank borrowing facilities:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
RMB facilities	15,170	860,000	740,000

23 DEFERRED REVENUE

Deferred revenue of the Group and the Company included government grants in respect of the Group or the Company's construction of various facilities and wastewater treatment facilities as well as the conduction of research and development activities.

Government grants relating to property, plant and equipment are recognised to the consolidated statements of comprehensive income on a straight-line basis over the estimated lives of the related assets.

Government grants relating to research and development activities are recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Group

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Government grants related to:			
– property plant and equipment	30,671	101,396	95,835
– research and development activities	10,486	9,227	11,286
	41,157	110,623	107,121

The movement of government grants during the Relevant Period is set out as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Opening net book value	37,238	41,157	110,623
Additions	8,128	76,237	30,250
Decrease *(Note (a))*	–	–	(22,000)
Amortisation *(Note 25)*	(4,209)	(6,771)	(11,752)
Closing net book value	41,157	110,623	107,121

(a) As a result of cease of certain projects, relevant government grants of RMB22,000,000 was returned according to resolution of the meeting among Kunming Development and Reform Commission, KDI and the Company in 2016. These projects were yet to start and no amortisation of deferred revenue was recognised.

Company

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Government grants related to:			
– property plant and equipment	30,598	101,329	95,780
– research and development activities	10,486	9,227	11,286
	41,084	110,556	107,066

24 TRADE AND OTHER PAYABLES

Group

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade payables	1,513	717	2,093
Other payables due to:	139,792	162,947	53,176
– related parties *(Note 38)*	129,642	129,785	20,881
– third parties	10,150	33,162	32,295
Consideration payable for acquisition of subsidiaries *(Note 37)*	–	26,067	18,447
Staff salaries and welfare payables	17,783	21,075	28,661
Advance from customers	9,967	160,099	12,177
– related parties *(Note 38)*	8,158	–	9,879
– local government	–	153,760	–
– third parties	1,809	6,339	2,298
Payables on acquisition of property, plant and equipment due to:	39,078	100,723	151,957
– related parties *(Note 38)*	2,643	19,842	29,769
– third parties	36,435	80,881	122,188
Payables on acquisition of land use rights from related parties *(Note 38)*	–	–	58,194
Interest payables	1,558	1,998	1,310
Accrued taxes other than income tax	25,505	76,422	96,324
	235,196	550,048	422,339

(a) As at 31 December 2014, 2015 and 2016, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

(b) During the Relevant Periods, the Group's trade and other payables are denominated in RMB.

(c) Ageing analysis of trade payables to third parties at the respective balance sheet dates is as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
– Within one year	558	702	2,093
– Over one year and within two years	16	7	–
– Over two years and within three years	939	8	–
	1,513	717	2,093

Company

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Trade payables:	96	99	1,928
– related parties (Note 38)	–	–	1,557
– third parties	96	99	371
Other payables due to:	116,129	152,953	39,790
– related parties *(Note 38)*	113,437	124,287	12,474
– third parties	2,692	28,666	27,316
Staff salaries and welfare payables	4,767	4,743	7,046
Advance from customers	8,722	158,760	9,973
– related parties *(Note 38)*	8,158	–	9,879
– local government	–	153,760	–
– third parties	564	5,000	94
Payables on acquisition of property, plant and equipment due to:	36,253	95,938	149,939
– related parties *(Note 38)*	37	17,237	29,769
– third parties	36,216	78,701	120,170
Payables on acquisition of land use rights from related parties *(Note 38)*	–	–	58,194
Interest payables	1,558	1,998	1,310
Accrued taxes other than income tax	21,851	69,886	93,816
	189,376	484,377	361,996

25 OTHER INCOME

Group

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Government grants:	4,209	38,674	75,312
– relating to property plant and equipment	545	3,346	5,461
– relating to research and development activities	3,664	3,425	6,291
– relating to tax refund *(Note (a))*	–	31,903	63,560
Interest income from cash and cash equivalents	1,589	1,579	3,329
Others	2,112	2,006	3,378
	7,910	42,259	82,019

(a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, companies who sell self-produced products made with integrated utilised resources or provides labor services for integrated utilization of resources can enjoy the policy of value-added tax ("VAT") refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% tax refund proportions respectively.

26 OTHER LOSSES — NET

Group

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Losses on disposal of property, plant and equipment – net	4,092	2,830	3,219
Gains on disposal of land use right – net	–	–	(2,420)
Donation expenses	400	6	–
Others	9	(62)	473
	4,501	2,774	1,272

27 EXPENSES BY NATURE

Group

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Depreciation of properties, plant and equipment *(Note 8)*	131,354	139,221	162,362
Utilities and electricity	81,436	91,160	80,779
Employee benefit expenses *(Note 28)*	66,174	76,303	97,546
Costs of wastewater and water distribution services	44,038	49,045	54,100
– Material costs	32,616	38,402	42,710
– Costs for sludge treatment	11,422	10,643	11,390
Cost of construction services	25,335	69,255	74,159
Taxes and levies	9,318	16,714	27,796
Transportation costs	8,723	10,684	11,326
Repair and maintenance costs	13,333	14,188	19,166
Commission charge *(Note 38)*	6,929	7,123	7,692
Amortisation of land use rights *(Note 6)*	7,495	7,495	8,646
Office expenditures	5,683	8,420	9,960
Labour costs	8,574	13,312	14,617
Professional expenses	5,234	10,726	13,337
Material used in research and development activities	2,584	17,914	3,685
Amortisation of intangible assets *(Note 10)*	2,597	3,066	3,812
Auditor's remuneration	487	222	311
Listing expenses	–	1,409	2,507
Miscellaneous	11,717	16,167	13,250
Total cost of sales, selling expenses, administrative expenses and research and development expenses	431,011	552,424	605,051

28 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS)

Group

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Salaries, wages and bonuses	50,388	56,391	72,488
Contributions to pension plans *(Note (a))*	8,601	9,812	12,413
Housing fund, medical insurance and other social insurance *(Note (b))*	7,185	10,100	12,645
	66,174	76,303	97,546

(a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 26% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 25.4% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

During the Relevant Periods, no director received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

29 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executives' emoluments

Directors and chief executives' emoluments for the Relevant Periods are set out as follows:

	Fees	Salary	Discretionary bonuses	Employer's contribution to benefit scheme	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014						
Executive directors						
Ms. Guo Yumei (郭玉梅) (i)	–	–	–	–	–	–
Mr. Luo Yun (羅雲) (ii)	–	155	49	69	–	273
Non-executive director						
Mr. Zeng Feng (曾鋒) (iii)	–	–	–	–	–	–
Supervisors						
Mr. Na Zhiqiang (那志強) (viii)	–	156	48	71	–	275
Mr. Yao Jianghua (姚建華) (ix)	–	86	54	66	–	206
Chief executive						
Mr. Mei Yili (梅益立) (xi)	–	–	–	–	–	—
	–	397	151	206	–	754
Year ended 31 December 2015						
Executive directors						
Ms. Guo Yumei (郭玉梅) (i)	–	177	–	83	–	260
Mr. Luo Yun (羅雲) (ii)	–	191	143	74	–	408
Non-executive director						
Mr. Zeng Feng (曾鋒) (iii)	–	–	–	–	–	–
Supervisors						
Mr. Na Zhiqiang (那志強) (viii)	–	174	101	73	–	348
Mr. Yao Jianghua (姚建華) (ix)	–	153	54	73	–	280
Chief executives						
Mr. Mei Yili (梅益立) (xi)	–	144	–	83	–	227
Mr. Yang Yang (楊陽) (xii)	–	133	–	50	–	183
	–	972	298	436	–	1,706
Year ended 31 December 2016						
Executive directors						
Ms. Guo Yumei (郭玉梅) (i)	–	180	–	32	59	271
Mr. Luo Yun (羅雲) (ii)	–	144	–	28	55	227
Non-executive directors						
Mr. Zeng Feng (曾鋒) (iii)	–	–	–	–	–	–
Ms. Song Hong (宋紅) (iv)	–	–	–	–	–	–
Independent non-executive directors						
Mr. Wong Man Chung Francis (黃文宗) (v)	–	–	–	–	–	–
Mr. Yin Xiaobing (尹曉冰) (vi)	–	–	–	–	–	–
Mr. He Xifeng (何錫鋒) (vii)	–	–	–	–	–	–
Supervisors						
Mr. Na Zhiqiang (那志強) (viii)	–	144	–	28	54	226
Shao Wei (邵偉) (x)	–	–	–	–	–	–
Mr. Yao Jianghua (姚建華) (ix)	–	173	–	31	54	258
Chief executive						
Mr. Mei Yili (梅益立) (xi)	–	144	–	32	59	235
Mr. Yang Yang (楊陽) (xii)	–	144	–	28	50	222
	–	929	–	179	331	1,439

(i) Ms. Guo Yumei was appointed as an executive director of the Company in January 2011, and the chairperson of the board in June 2016.

(ii) Mr. Luo Yun was appointed as an executive director of the Company in June 2016. Mr. Luo served as the assistant to general manager from June 2013 to January 2015 and was appointed as the deputy general manager of the Company since January 2015.

(iii) Mr. Zeng Feng was appointed as a non-executive director of the Company in January 2011.

(iv) Ms. Song Hong was appointed as a non-executive director of the Company in June 2016.

(v) Mr. Wong Man Chung Francis was appointed as an independent non-executive director in June 2016.

(vi) Mr. Yin Xiaobing was appointed as an independent non-executive director in June 2016.

(vii) Mr. He Xifeng was appointed as an independent non-executive director in June 2016.

(viii) Mr. Na Zhiqiang was appointed as the chairman of the Board of Supervisors and an employee representative supervisor in January 2011.

(ix) Mr. Yao Jianghua was appointed as an employee representative supervisor in January 2011.

(x) Mr. Shao Wei was appointed as a supervisor in May 2016.

(xi) Mr. Mei Yili was appointed as the deputy general manager of the Company since January 2015. Mr. Mei Yili served as management role in different subsidiaries of the Company and the Controlling Shareholder before the appointment as chief executive in the Company.

(xii) Mr. Yang Yang was appointed as the chief financial officer of the Company in January 2015.

(xiii) In addition to the directors' and chief executives' emoluments as disclosed above, certain directors and supervisors of the Company received emoluments from KDI, the controlling shareholder of the Company. Ms. Guo Yumei of the Company received emoluments amounting to RMB296,000 for the year of 2014. Mr. Mei Yili of the Company received emoluments amounting to RMB247,000 for the year of 2014. No apportionment has been made as the directors and supervisors of the Company consider that it is impractical to apportion the emoluments.

(b) Directors' retirement benefits

There is no retirement benefits by a defined benefit pension plan operated by the Group.

(c) Directors' termination benefits

There is no directors' termination benefits operated by the Group.

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

During the Relevant Periods, no consideration was provided to third parties for making available directors' services.

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

During the Relevant Periods, there were no loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors.

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

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

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 2 directors, 2 supervisors and 1 chief executive for the year ended 31 December 2014, 2015 and 2016. Their emoluments are reflected in the analysis presented above.

The emoluments fell within the following bands:

	Year ended 31 December		
	2014	**2015**	**2016**
Emoluments bands (in HKD):			
Nil to HKD500,000	5	5	5
HKD500,001 to HKD1,000,000	–	–	–
HKD1,000,001 to HKD1,500,000	–	–	–
	5	5	5

During the Relevant Periods, none of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

30 FINANCE COSTS — NET

Group

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Finance income:			
– Interest income from term deposits	4,969	1,541	–
– Interest income charged to related parties *(Note 38)*	20,484	16,644	14,693
– Interest income arising from construction contracts	1,073	1,754	1,923
– Others	–	66	54
	26,526	20,005	16,670
Finance costs:			
– Interest expenses on unsecured borrowings	(36,892)	(52,143)	(45,107)
– Interest expenses on corporate bonds	–	(514)	(31,360)
– Interest expenses on secured borrowings	(35,892)	(22,700)	(12,314)
Total interest expenses on borrowings	(72,784)	(75,357)	(88,781)
– Less: borrowing costs capitalised in property, plant and equipment *(Note 8(d))*	17,508	11,337	8,544
– Interest expenses – net	(55,276)	(64,020)	(80,237)
– Others	(23)	(44)	(62)
	(55,299)	(64,064)	(80,299)
Finance costs – net	(28,773)	(44,059)	(63,629)

31 INCOME TAX EXPENSE

Group

The amounts of income tax expense charged to the consolidated statements of comprehensive income represent:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Current income tax	33,220	36,890	46,075
Deferred income tax *(Note 13)*	(838)	(6,759)	5,118
Income tax expense	32,382	30,131	51,193

The Group was not subject to Hong Kong profits tax during the Relevant Periods as there was no assessable income arising in or derived from Hong Kong.

Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries during the Relevant Periods, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

(a) China's west region development policy (the "West Region Development Policy") is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in west region of China. During the Relevant Periods, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

(b) In addition to the West Region Development Policy, the Company also qualifies as a "High-tech Enterprise" since 2014 and enjoys a 15% enterprise income tax rate from 2014 to 2016.

(c) Certain newly upgraded wastewater treatment facilities meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments, and are entitled to three years' exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.

(d) Certain subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments as its major raw materials and enjoyed 10% deduction of CIT.

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Profit before income tax	277,895	267,742	326,871
Tax calculated at the domestic CIT rate applicable	69,474	66,936	81,718
Tax effect of:			
Expenses not deductible for tax purpose *(Note (i))*	409	181	261
Preferential tax rate of certain subsidiaries *(Note (a) and (b))*	(37,529)	(36,923)	(30,653)
Income not subject to income tax *(Note (c))*	(113)	(125)	(156)
Share of results of associates	143	55	18
Others	(2)	7	5
Income tax expense	32,382	30,131	51,193

(i) Expenses not deductible for tax purpose primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law, write-off of inventories and receivables without tax authorities' approval.

32 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for each of years ended 31 December 2014, 2015 and 2016 have been dealt with in the financial statements of the Company to the extent of approximately RMB250,830,000, RMB220,061,000 and RMB252,010,000, respectively.

33 EARNINGS PER SHARE

(a) Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The basic earnings per share for the years ended 31 December 2014, 2015 and 2016 is calculated based on the assumption that the 360,000,000 shares issued and fully paid by way of capitalisation of share premium in October 2015 (Note 19(b)) have been issued since 1 January 2014, the earliest date presented in this report.

	Year ended 31 December		
	2014	**2015**	**2016**
Profit attributable to equity holders of the Company (RMB'000)	245,513	237,611	274,993
Weighted average number of ordinary shares in issue (thousand)	720,000	720,000	720,000
Basic earnings per share (RMB)	0.34	0.33	0.38

(b) The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the Relevant Periods.

34 DIVIDENDS

As approved by the shareholders' meeting on 17 December 2015, the Company declared dividends of RMB252,000,000 in respect of the accumulated distributable profit as at 31 December 2014. The declaration of dividends has been reflected as an appropriation of retained earnings during the year ended 31 December 2015. The dividends were paid out in the year ended 31 December 2015.

35 CASH (USED IN)/GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash (used in)/generated from operations

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Profit for the year before income tax	277,895	267,742	326,871
Adjustments for:			
– Depreciation of property, plant and equipment	131,354	139,221	162,362
– Amortisation of land use rights	7,495	7,495	8,646
– Amortisation of intangible assets	2,597	3,066	3,812
– Share of results of associates	955	367	121
– Finance costs – net	28,750	44,015	63,567
– Amortization of government grants relating to purchase of property, plant and equipment	(545)	(3,346)	(5,461)
– Losses on disposal of property, plant and equipment	4,092	2,830	3,219
– Gains on disposal of land use rights	–	–	(2,420)
	452,593	461,390	560,717
Changes in working capital:			
– (Increase)/decrease in trade and other receivables	(442,521)	455,352	(85,184)
– Increase in inventories	(64)	(183)	(2,384)
– Increase in amount due from customers for construction contracts	(11,568)	(6,985)	(4,830)
– Increase in receivables under service concession arrangements	(12,463)	(56,941)	(65,918)
– Increase/(decrease) in deferred revenue relating to research and development activities	2,564	(1,259)	2,059
– Increase/(decrease) in trade and other payables	5,853	226,699	(258,698)
Cash (used in)/generated from operations	(5,606)	1,078,073	145,762

(b) In the consolidated cash flow statements, proceeds from disposal of properties, plant and equipment comprise:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Net book value *(Note 8)*	4,123	2,831	3,384
Losses on disposal of property, plant and equipment *(Note 26)*	(4,092)	(2,830)	(3,219)
Proceeds from the disposal	31	1	165

(c) In the consolidated cash flow statements, proceeds from disposal of land use rights comprise:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Net book value *(Note 6)*	–	–	4,414
Gains on disposal of land use rights *(Note 26)*	–	–	2,420
Proceeds from the disposal	–	–	6,834

36 COMMITMENTS

(a) Capital commitments

(i) Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Property, plant and equipment	256,125	499,504	458,123
Land use rights and intangible assets	53,910	17,787	16,978
	310,035	517,291	475,101

(ii) Acquisition of equity interests in subsidiaries:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Acquisition of equity interests in subsidiaries	–	3,294	–

(iii) Acquisition of business under TOT/BOT model:

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Acquisition of business under TOT/BOT model	–	11,000	–

(b) Operating lease commitments — the Group as lessee

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
No later than 1 year	123	121	121
Later than 1 year and no later than 2 year	123	121	121
Later than 2 year and no later than 5 year	286	363	363
Later than 5 years	1,843	2,495	2,374
	2,375	3,100	2,979

37 BUSINESS COMBINATIONS

During the Relevant Periods, the Group acquired equity interests in certain subsidiaries from independent third parties. Details of the acquisitions are as follows:

Year ended 31 December 2014

(i) On 31 March 2014, the Group acquired 100% of the equity interests in Xundian Tongqiu Wastewater Treatment Co., Ltd. (尋甸縣通球污水處理有限公司, "Xundian Wastewater") at a consideration of RMB24,200,000. After the acquisition, Xundian Wastewater became a directly owned subsidiary of the Group.

Xundian Wastewater's principal activities are wastewater treatment and operation and maintenance, and were acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed arising from the acquisition are as follows:

	As at 31 March 2014
	RMB'000
Consideration:	
Cash consideration	24,200
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	1
Receivables under service concession arrangements	31,280
Intangible assets	8,001
Property, plant and equipment	56
Trade and other receivables	1,031
Trade and other payables	(12,724)
Current income tax liabilities	(118)
Deferred tax liabilities	(3,327)
Total identifiable net assets	24,200

As Xundian Wastewater is mainly engaged in wastewater treatment and operation and maintenance business and most of its assets and liabilities are current assets and liabilities, the directors of the Company are of the view that, the fair value of its identifiable assets and liabilities approximated to their carrying amount due to their short maturities. Receivables under service concession arrangements of RMB31,280,000 and an intangible asset of concession rights of RMB8,001,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2014 contributed by Xundian Wastewater was approximately RMB4,580,000. Xundian Wastewater also contributed profit of approximately RMB1,597,000 over the same period.

Had Xundian Wastewater been consolidated from 1 January 2014, the consolidated revenue and profit of the Group would be increased by approximately RMB1,830,000 and RMB1,156,000, respectively.

(ii) On 15 July 2014, Shidian Dianchi Water Treatment Co., Ltd. (施甸滇池水務有限公司, "Shidian Water"), a subsidiary of the Group, acquired the service concession contract from local government at a consideration of RMB21,282,000. The Group did not assume any liability from the historical operation.

Shidian Water's principal activities are wastewater treatment, and the business was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired from the acquisition are as follows:

	As at 15 July 2014
	RMB'000
Consideration:	
Cash consideration	21,282
Recognised amounts of identifiable assets acquired:	
Receivables under service concession arrangements	17,877
Intangible assets	3,405
Total identifiable net assets	21,282

Receivables under service concession arrangements of RMB17,877,000 and an intangible asset of concession rights of RMB3,405,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2014 contributed by Shidian Water was approximately RMB1,715,000. Shidian Water also contributed profit of approximately RMB628,000 over the same period.

Had Shidian Water been consolidated from 1 January 2014, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB2,027,000 and RMB742,000, respectively.

(iii) The following table summarised the cash flows from the acquisitions for the year ended 31 December 2014.

	As at 31 December 2014
	RMB'000
Total cash consideration	45,482
Less: cash and cash equivalents in the subsidiaries acquired	(1)
Cash outflows from the acquisitions	45,481

Year ended 31 December 2015

(i) On 1 July 2015, Yiliang Dianchi Water Treatment Co., Ltd. (彝良滇池水務有限公司, "Yiliang Water"), a subsidiary of the Group, acquired the service concession contract from local government at a consideration of RMB20,032,000. The Group did not assume any liability from the historical operation.

Yiliang Water's principal activities are wastewater treatment, and the business was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired from the acquisition are as follows:

	As at 1 July 2015
	RMB'000
Consideration:	
Cash consideration	20,032
Recognised amounts of identifiable assets acquired:	
Receivables under service concession arrangements	17,027
Intangible assets	3,005
Total identifiable net assets	20,032

Receivables under service concession arrangements of RMB17,027,000 and an intangible asset of concession rights of RMB3,005,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2015 contributed by Yiliang Water was approximately RMB2,795,000. Yiliang Water also contributed profit of approximately RMB1,626,000 over the same period.

Had Yiliang Water been consolidated from 1 January 2015, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB2,795,000 and RMB1,626,000, respectively.

(ii) On 30 July 2015, Malong Dianchi Water Treatment Co., Ltd. (馬龍滇池水務有限公司, "Malong Water"), a subsidiary of the Group, acquired the service concession contract from local government at a consideration of RMB61,489,000. The Group did not assume any liability from the historical operation.

Malong Water's principal activities are running water treatment and wastewater treatment, and the business was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired from the acquisition are as follows:

	As at 30 July 2015
	RMB'000
Consideration:	
Cash consideration	61,489
Recognised amounts of identifiable assets acquired:	
Receivables under service concession arrangements	53,365
Intangible assets	8,124
Total identifiable net assets	61,489

Receivables under service concession arrangements of RMB53,365,000 and an intangible asset of concession rights of RMB8,124,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2015 contributed by Malong Water was approximately RMB4,906,000. Malong Water also contributed profit of approximately RMB2,125,000 over the same period.

Had Malong Water been consolidated from 1 January 2015, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB6,868,000 and RMB2,975,000, respectively.

(iii) On 14 October 2015, the Group acquired 100% of the equity interests in Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司, "Fanchang Water", formerly named as Fanchang Suncun Water Treatment Co., Ltd.) at a consideration of RMB39,800,000. The Group did not assume any liability from the historical operation.

Fanchang Water's principal activities are wastewater treatment, and the business was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed arising from the acquisition are as follows:

	As at 14 October 2015
	RMB'000
Consideration:	
Cash consideration	39,800
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Receivables under service concession arrangements	21,870
Intangible assets	18,128
Deferred tax liabilities	(198)
Total identifiable net assets	39,800

Receivables under service concession arrangements of RMB21,870,000 and an intangible asset of concession rights of RMB17,930,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2015 contributed by Fanchang Water was approximately RMB678,000. Fanchang Water also contributed profit of approximately RMB442,000 over the same period.

Had Fanchang Water been consolidated from 1 January 2015, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB3,390,000 and RMB2,210,000, respectively.

(iv) On 5 December 2015, Zhuji Dianchi Water Treatment Co., Ltd. (諸暨滇池水務有限公司, "Zhuji Water"), a subsidiary of the Group, acquired the service concession contract from local government at a consideration of RMB24,000,000. The Group did not assume any liability from the historical operation.

Zhuji Water's principal activities are wastewater treatment and operation and maintenance, and the business was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired from the acquisition are as follows:

	As at 5 December 2015
	RMB'000
Consideration:	
Cash consideration	24,000
Recognised amounts of identifiable assets acquired:	
Receivables under service concession arrangements	21,120
Intangible assets	2,880
Total identifiable net assets	24,000

Receivables under service concession arrangements of RMB21,120,000 and an intangible asset of concession rights of RMB2,880,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2015 contributed by Zhuji Water was approximately RMB306,000. Zhuji Water also contributed profit of approximately RMB153,000 over the same period.

Had Zhuji Water been consolidated from 1 January 2015, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB3,366,000 and RMB1,683,000, respectively.

(v) On 9 December 2015, Suijiang Dianchi Water Treatment Co., Ltd. (綏江滇池水務有限公司, "Suijiang Water"), a subsidiary of the Group, acquired the service concession contract from local government at a consideration of RMB20,100,000. The Group did not assume any liability from the historical operation.

Suijiang Water's principal activities are wastewater treatment and operation and maintenance, and the business was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired from the acquisition are as follows:

	As at 9 December 2015
	RMB'000
Consideration:	
Cash consideration	20,100
Recognised amounts of identifiable assets acquired:	
Receivables under service concession arrangements	18,090
Intangible assets	2,010
Total identifiable net assets	20,100

As Suijiang Water is mainly engaged in wastewater treatment and operation and maintenance business and most of its assets and liabilities are current assets and liabilities, the directors of the Company are of the view that, the fair value of its identifiable assets and liabilities approximated to their carrying amount due to their short maturities. Receivables under service concession arrangements of RMB18,090,000 and an intangible asset of concession rights of RMB2,010,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2015 contributed by Suijiang Water was approximately RMB291,000. Suijiang Water also contributed profit of approximately RMB119,000 over the same period.

Had Suijiang Water been consolidated from 1 January 2015, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB3,201,000 and RMB1,309,000, respectively.

(vi) The following table summarised the cash flows from the acquisitions for the year ended 31 December 2015:

	As at 31 December 2015
	RMB'000
Total cash consideration in respect of acquisition of subsidiaries	165,421
Less: increase in consideration payable in respect of acquisition of subsidiaries *(Note 24)*	(26,067)
	139,354
Add: increase in prepayments for acquiring subsidiaries	10,879
Cash outflows from the acquisitions	150,233

Year ended 31 December 2016

(i) On 1 January 2016, Ziyunxian Dianchi Water Treatment Co., Ltd. (紫雲縣滇池水務有限公司, "Ziyun Water"), a subsidiary of the Group, acquired the service concession contract from local government at a consideration of RMB11,000,000. The Group did not assume any liability from the historical operation.

Ziyun Water's principal activities are wastewater treatment, and it was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired from the acquisition are as follows:

	As at 1 January 2016
	RMB'000
Consideration:	
Cash consideration	11,000
Recognised amounts of identifiable assets acquired:	
Receivables under service concession arrangements	9,900
Intangible assets	1,100
Total identifiable net assets	11,000

Receivables under service concession arrangements of RMB9,900,000 and an intangible asset of concession rights of RMB1,100,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2016 contributed by Ziyun Water was approximately RMB1,404,000. Ziyun Water also contributed profit of approximately RMB553,000 over the same period.

(ii) On 9 May 2016, the Group acquired 100% of the equity interests in Guizhou Bafang Water Treatment Co., Ltd. (貴州八方水務尋有限公司, "Bafang Water") at a consideration of RMB9,577,000. After the acquisition, Bafang Water became a directly owned subsidiary of the Group.

Bafang Water's principal activities are wastewater treatment, and were acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 9 May 2016
	RMB'000
Consideration:	
Cash consideration	9,577
Recognised amounts of identifiable assets acquired:	
Cash and cash equivalents	1,815
Receivables under service concession arrangements	25,772
Intangible assets	5,089
Property, plant and equipment	645
Trade and other receivables	4,496
Trade and other payables	(27,806)
Deferred tax liabilities	(434)
Total identifiable net assets	9,577

Receivables under service concession arrangements of RMB25,772,000 and an intangible asset of concession rights of RMB5,089,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2016 contributed by Bafang Water was approximately RMB7,613,000. Bafang Water also contributed profit of approximately RMB2,725,000 over the same period.

Had Bafang Water been consolidated from 1 January 2016, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB3,036,000 and RMB1,114,000, respectively.

(iii) On 25 May 2016, the Group acquired 51% of the equity interests in Kunming He'ertai Environmental industry and trade Co., Ltd. (昆明和而泰環保工貿有限責任公司, "He'ertai Environmental") at a consideration of RMB4,597,000. After the acquisition, He'ertai Environmental became a directly owned subsidiary of the Group.

He'ertai Environmental's principal activities are water treatment, and were acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 25 May 2016
	RMB'000
Consideration:	
Cash consideration	4,597
Recognised amounts of identifiable assets acquired:	
Cash and cash equivalents	380
Property, plant and equipment	8,179
Trade and other receivables	639
Inventories	1,347
Trade and other payables	(1,531)
Total identifiable net assets	9,014
Non-controlling interests	(4,417)
Total identifiable net assets attributable to equity holders of the Company	4,597

The directors of the Company are of the view that, the fair value of its identifiable assets and liabilities approximated to their carrying amount, and the non-controlling interests were recognised proportionately.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2016 contributed by He'ertai Environmental was approximately RMB11,045,000. He'ertai Environmental also contributed profit of approximately RMB1,398,000 over the same period.

Had He'ertai Environmental been consolidated from 1 January 2016, the consolidated revenue of the Group would be increased by approximately RMB5,348,000, and the consolidated profit of the Group would be decreased by RMB812,000, respectively.

(iv) The following table summarised the cash flows from the acquisitions for the year ended 31 December 2016:

	As at 31 December 2016
	RMB'000
Total cash consideration	25,174
Add: decrease in consideration payable in respect of acquisition of subsidiaries *(Note 24)*	7,620
Less: cash and cash equivalents in the subsidiaries acquired	(2,195)
changes in prepayments *(a)*	69,071
Cash outflows from the acquisitions	99,670

(a) Changes in prepayments

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
He'ertai Environmental	–	3,218	–
Bafang Water	–	7,661	–
Libao Water *(Note 40)*	–	–	6,750
Qutang Water *(Note 40)*	–	–	5,300
Hongze Water *(Note 40)*	–	–	67,900
	–	10,879	79,950

38 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Company is controlled by KDI, which is a government-related enterprise established in the PRC by Kunming SASAC. In accordance with IAS 24 (Revised), "Related Party Disclosures", issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the Financial Information.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2014, 2015 and 2016, and balances arising from related party transactions as at 31 December 2014, 2015 and 2016.

(a) Name and relationship with related parties

Name of related party	Nature of relationship
KDI	Controlling shareholder of the Company
DIG	Controlled by Kunming SASAC and a minority shareholder of the Company
IDI	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming State-Owned Asset Management	Controlled by Kunming SASAC and a minority shareholder of the Company
Xindu Real Estate	Controlled by Kunming SASAC and a minority shareholder of the Company
Xindu Investment	Controlled by Kunming SASAC
Kunming CGE Water Supply Co., Ltd. (昆明通用水務自來水有限公司, "Kunming CGE")	Controlled by Kunming SASAC
Kunming Qingyuan Water Supply Co., Ltd.(昆明清源自來水有限責任公司, "Kunming Qingyuan")	Controlled by Kunming SASAC

Name of related party	Nature of relationship
Kunming Panasia Lakes Integrated Regulation Co., Ltd. (昆明泛亞湖泊綜合治理有限公司, "Kunming Panasia")	Controlled by KDI
Dianchi Jiajing	Associate of the Company
Kunming Wastewater Treatment and Operation Co., Ltd. (昆明城市污水處理運營有限責任公司, "City Operation")	Subsidiary of the Company
Kunming Dianchi Water Treatment Occupation Training School (昆明滇池水處理職業培訓學校, "Dianchi Training School")	Subsidiary of the Company
Xundian Wastewater	Subsidiary of the Company
Yunnan Reclaimed Water Industry Co., Ltd. (雲南中水工業有限公司, "Yunnan Reclaimed Water")	Subsidiary of the Company
Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司, "Dianchi Logistics")	Subsidiary of the Company
Fanchang Water	Subsidiary of the Company
Bafang Water	Subsidiary of the Company
He'ertai Environmental	Subsidiary of the Company
Shuangjiang Dianchi Watertreatment Co., Ltd. (雙江滇池水務有限公司 "Shuangjiang")	Subsidiary of the Company

(b) Transactions with related parties

Group

Save as disclosed elsewhere in this report, during the years ended 31 December 2014, 2015 and 2016, the Group had the following significant transactions with related parties.

(i) Prepayments made for purchase of property, plant and equipment, other than the Reorganisation:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	–	450,000	–

(ii) Purchase of property,plant and equipment, other than the Reorganisation :

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	–	–	448,884
Xindu Investment	–	202,040	–
	–	202,040	448,884

(iii) Purchase of land use right, other than the Reorganisation:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	–	–	67,984
Xindu Investment	–	–	31,000
	–	–	98,984

(iv) Loans granted to related parties:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	479,888	60,554	67,902
Dianchi Jiajing	12,500	–	–
Xindu Investment	186,000	–	760
	678,388	60,554	68,662

The transaction under finance arrangement between the Group and related parties are paid and settled by RMB, repayable on demand.

Interest was charged on certain loans granted to related parties at a rate of 8% and 10%.

(v) Loans repaid from related parties:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	536,942	68,256	67,902
Xindu Investment	12,500	–	–
	549,442	68,256	67,902

(vi) Interest income from related parties:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	13,462	–	14,693
Xindu Investment	6,828	16,644	–
Dianchi Jiajing	194	–	–
	20,484	16,644	14,693

(vii) Transportation services provided to related parties:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Kunming Panasia	1,862	568	304

(viii) Services provided to related parties:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	24,468	66,156	83,318

(ix) Commission charged by related parties:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Kunming CGE	6,929	7,123	6,531
Kunming Qingyuan	–	–	1,161
	6,929	7,123	7,692

(c) Key management compensation

Key management includes directors (executive and non-executive), supervisors and executives. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Salaries, wages and bonuses	548	1,270	929
Contributions to pension plans	75	161	179
Housing fund, medical insurance and other social insurance	131	275	332
	754	1,706	1,440

(d) Balances with related parties

Group

(i) Trade and other receivables due from related parties:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	17,809	69,074	30,677
Xindu Investment	192,828	23,472	24,232
Kunming CGE	18,340	19,202	18,295
Kunming Qingyuan	–	–	5,946
	228,977	111,748	79,150

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

(ii) Trade and other payables due to related parties:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Acquisition of property plant and equipment:			
KDI	2,643	3,802	13,729
Xindu Investment	–	16,040	16,040
Acquisition of land use rights:			
KDI	–	–	27,194
Xindu Investment	–	–	31,000
Others:			
KDI	129,092	129,209	19,039
Kunming CGE	550	576	1,664
Kunming Qingyuan	–	–	178
	132,285	149,627	108,844

(iii) Advance from related parties for services to be provided:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	8,158	–	9,879

Other payables are all non-trade payables and will be settled upon demand of these related parties.

Company

(i) Trade and other receivables due from related parties:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	17,261	68,525	30,128
Kunming CGE	18,340	19,202	18,295
City Operation	5,248	5,821	5,821
Dianchi Training School	30	30	30
Xundian Wastewater	13,131	10,938	8,750
Xindu Investment	192,828	23,472	24,232
Yunnan Reclaimed Water	–	254	255
Fanchang Water	–	–	540
Bafang Water	–	–	27,083
Kunming Qingyuan	–	–	5,946
Shuangjiang	–	–	37
	246,838	128,242	121,117

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

(ii) Trade and other payables due to related parties:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	112,057	113,217	40,943
He'ertai Environmental	–	–	1,557
Yunnan Reclaimed Water	867	–	12
Dianchi Logistics	–	2,000	2,000
City Operation	–	9,691	8,600
Xindu Investment	–	16,040	47,040
Kunming Qingyuan	–	–	178
Kunming CGE	550	576	1,664
	113,474	141,524	101,994

Other payables are all non-trade payables and will be settled upon demand of these related parties.

(iii) Advance from related parties for services to be provided:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
KDI	8,158	–	9,879

39 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at the date of this report and during the Relevant Periods are set out below:

Company name	Country or place and date of incorporation	Issued and paid up capital or registered capital	Effective interests held by the Group % 31 December 2014	2015	2016	Date of this report	Direct or Indirect	Principle activities
Yunnan Reclaimed Water	PRC, 28 March 2002	9,162	100%	100%	100%	100%	Direct	Reclaimed water supply
City Operation	PRC, 15 June 2005	5,640	100%	100%	100%	100%	Direct	Operation of wastewater treatment facilities
Dianchi Logistics	PRC, 15 June 2005	3,012	100%	100%	100%	100%	Direct	Logistics and leasing services
Dianchi Training School	PRC, 26 October 2012	282	100%	100%	100%	100%	Direct	Professional training services
Xundian Wastewater	PRC, 30 April 2009	24,200	100%	100%	100%	100%	Direct	Wastewater treatment
Shidian Water	PRC, 21 July 2014	23,300	100%	100%	100%	100%	Direct	Wastewater treatment

Company name	Country or place and date of incorporation	Issued and paid up capital or registered capital	Effective interests held by the Group % 31 December 2014	2015	2016	Date of this report	Direct or Indirect	Principle activities
Kunming Haiyun Investment Co., Ltd. (昆明海韻投資有限公司, "Haiyun Investment")*	PRC, 21 April 2013	–	60%	N/A	N/A	N/A	Direct	Wastewater treatment
Yiliang Water	PRC, 4 June 2015	21,000	N/A	100%	100%	100%	Direct	Wastewater treatment
Malong Water	PRC, 13 August 2015	62,059	N/A	100%	100%	100%	Direct	Wastewater treatment and running water supply
Fanchang Water	PRC, 8 May 2014	39,800	N/A	100%	100%	100%	Direct	Wastewater treatment
Zhuji Water	PRC, 30 November 2015	25,000	N/A	100%	100%	100%	Direct	Wastewater treatment
Suijiang Water	PRC, 9 December 2015	22,000	N/A	100%	100%	100%	Direct	Wastewater treatment
Ziyun Water	PRC, 12 January 2016	12,000	N/A	N/A	100%	100%	Direct	Wastewater treatment
Bafang Water	PRC, 5 January 2011	10,000	N/A	N/A	100%	100%	Direct	Wastewater treatment
He'ertai Environmental	PRC, 7 February 2002	10,000	N/A	N/A	51%	51%	Direct	Manufacturing and sales of chemical products
Shuangjiang	PRC, 8 October 2016	10,000	N/A	N/A	100%	100%	Direct	Running water supply
Dian Chi Water Treatment (LAOS) Sole Co., Ltd (滇池水務（老撾）獨資有限公司 "DianChi LAOS")	LAOS, 22 August 2016	34,518	N/A	N/A	N/A	100%	Direct	Wastewater treatment and running water supply
Libao Water	PRC, 7 July 2009	2,000	N/A	N/A	N/A	100%	Direct	Wastewater treatment
Qutang Water	PRC, 6 July 2009	2,000	N/A	N/A	N/A	100%	Direct	Wastewater treatment
Hongze Water	PRC, 6 March 2006	16,800	N/A	N/A	N/A	100%	Direct	Wastewater treatment

All the subsidiaries are companies with limited liability.

* The Company liquidated Haiyun Investment, a 60% owned subsidiary of the Company. The liquidation was completed in December 2015.

The statutory financial statements of the subsidiaries of the Group for the years ended 31 December 2014 and 2015 have been audited by China Audit Asia Pacific Certified Public Accountants LLP ("China Audit"), as set out below:

	Name of statutory auditor	
Company name	**2014**	**2015**
Yunnan Reclaimed Water	China Audit	China Audit
City Operation	China Audit	China Audit
Dianchi Logistics	China Audit	China Audit
Dianchi Training School	China Audit	China Audit
Xundian Wastewater	China Audit	China Audit
Shidian Water	China Audit	China Audit
Yiliang Water	N/A	China Audit
Malong Water	N/A	China Audit
Fanchang Water	N/A	China Audit
Zhuji Water	N/A	China Audit
Suijiang Water	N/A	China Audit

Except for the above companies, no audited statutory financial statements were prepared for other subsidiaries as they are either not required to issue audited financial statements under the local statutory requirements or newly established that their first statutory audits have yet to be completed. There was no significant non-controlling interests or restriction on the assets in any of the subsidiaries. As at the date of this report, the audited statutory financial statements for the year ended 31 December 2016 are yet to be issued.

The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

40 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed below and elsewhere in the notes to the Financial Information set out above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2016:

Pursuant to a resolution of Board of Directors of the Company dated 22 April 2016, the Group intended to acquire all the wastewater treatment business, which include 100% equity interests in Libao Water, 100% equity interests in Qutang Water and 100% equity interests in Hongze Water, all of which are directly or indirectly owned by Jiangsu Tianying Water Development Co., Ltd (江蘇天楹水務發展有限公司, "Jiangsu Tianying"). The ultimate controlling shareholder of Jiangsu Tianying is an individual.

The combined financial information of Libao Water, Qutang Water and Hongze Water as at 31 December 2014, 2015 and 2016, and for each of the years ended 31 December 2014, 2015 and 2016 is disclosed in Section III "Additional Financial Information" below.

In January 2017, the Group completed the acquisition of the above mentioned three entities, and the full consideration of RMB79,950,000 was paid and recorded in "prepayment of acquisition of subsidiaries" in December 2016.

III ADDITIONAL FINANCIAL INFORMATION

FINANCIAL INFORMATION OF THE LIBAO WATER, QUTANG WATER AND HONGZE WATER

Pursuant to a resolution of Board of Directors of the Company dated 22 April 2016, the Group intended to acquire all the wastewater treatment business (the "Target Business"), which include 100% equity interests in Libao Water, 100% equity interests in Qutang Water and 100% equity interests in Hongze Water, all of which are directly or indirectly owned by Jiangsu Tianying.

The following are the the combined balance sheets of the Target Business prepared by the directors of the Company as at 31 December 2014 and 2015 and 2016 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended 31 December 2014, 2015 and 2016, presented on the basis set out in Note 2 of Section III below:

Combined Balance Sheets

		As at 31 December		
	Note	2014	2015	2016
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Land use rights	3	7,165	7,005	6,845
Property, plant and equipment	4	12,562	11,921	12,017
Receivables under service concession arrangements	5	27,847	26,634	28,155
Amounts due from customers for construction contracts	7	43,944	47,350	49,632
Intangible assets	6	7,574	7,280	6,986
		99,092	100,190	103,635
Current assets				
Receivables under service concession arrangements	5	1,383	4,130	2,272
Inventories		26	20	11
Amounts due from customers for construction contracts	7	2,781	2,920	3,796
Trade and other receivables	8	27,183	61,304	13,544
Cash and cash equivalents	9	185	11,661	2,630
		31,558	80,035	22,253
Total assets		130,650	180,225	125,888

	Note	As at 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
EQUITY				
Capital and reserve attributable to equity holders of the Target Business				
Combined capital	10	20,800	20,800	20,800
Statutory reserves	11	3,085	3,836	4,818
Retained earnings	12	27,687	33,074	26,517
Total equity		51,572	57,710	52,135
LIABILITIES				
Non-current liabilities				
Borrowings	13	4,735	31,396	–
Current liabilities				
Trade and other payables	14	64,974	43,975	65,665
Current income tax liabilities		5,678	7,492	8,088
Borrowings	13	3,691	39,652	–
		74,343	91,119	73,753
Total liabilities		79,078	122,515	73,753
Total equity and liabilities		130,650	180,225	125,888
Net current liabilities		(42,785)	(11,084)	(51,500)
Total assets less current liabilities		56,307	89,106	52,135

Combined Statements of Comprehensive Income

	Note	Year ended 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Revenue	15	13,260	12,478	14,695
Cost of sales	16	(5,719)	(5,834)	(6,485)
Gross profit		7,541	6,644	8,210
Administrative expenses	16	(660)	(1,418)	(1,684)
Other income	17	3	393	2,270
Other (losses)/gains – net	18	(25)	(368)	338
Operating profit		6,859	5,251	9,134
Finance income		6,173	7,023	8,677
Finance costs		(2,693)	(3,603)	(5,643)
Finance costs – net	19	3,480	3,420	3,034
Profit before income tax		10,339	8,671	12,168
Income tax expense	20	(2,563)	(2,533)	(3,277)
Profit for the year		7,776	6,138	8,891
Other comprehensive income		–	–	–
Total comprehensive income for the year		7,776	6,138	8,891
Dividends	21	–	–	14,466

Combined Statements of Changes in Equity

	Note	Capital and reserves attributable to equity holders of the Target Business				
		Combined capital	**Other reserves**	**Retained earnings**	**Total**	**Total equity**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
As at 1 January 2014		20,800	2,329	20,667	43,796	43,796
Comprehensive income:						
Profit for the year		–	–	7,776	7,776	7,776
Appropriation to statutory reserve		–	756	(756)	–	–
As at 31 December 2014		20,800	3,085	27,687	51,572	51,572
As at 1 January 2015		20,800	3,085	27,687	51,572	51,572
Comprehensive income:						
Profit for the year		–	–	6,138	6,138	6,138
Appropriation to statutory reserve		–	751	(751)	–	–
As at 31 December 2015		20,800	3,836	33,074	57,710	57,710
As at 1 January 2016		20,800	3,836	33,074	57,710	57,710
Comprehensive income:						
Profit for the year		–	–	8,891	8,891	8,891
Dividends declared to the then shareholders of the Target Business		–	–	(14,466)	(14,466)	(14,466)
Appropriation to statutory reserve		–	982	(982)	–	–
As at 31 December 2016		20,800	4,818	26,517	52,135	52,135

Combined Cash Flow Statements

	Note	Year ended 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Cash flow from operating activities				
Cash generated from operations	22	15,425	2,377	68,741
Interest paid		(1,911)	(2,245)	(5,407)
Income tax paid		(811)	(719)	(2,681)
Net cash generated from/(used in) operating activities		12,703	(587)	60,653
Cash flow from investing activities				
Purchase of property, plant and equipment		(4,843)	(783)	(931)
Funds granted to related parties		–	(56,000)	–
Interest received		6,329	7,582	12,795
Net cash generated from/(used in) investing activities		1,486	(49,201)	11,864
Cash flows from financing activities				
Proceeds from borrowings		–	70,000	10,000
Dividends paid to the shareholders of the Target Business		–	–	(6,382)
Repayments of borrowings		(24,110)	(8,736)	(85,166)
Net cash (used in)/generated from financing activities		(24,110)	61,264	(81,548)
Net (decrease)/increase in cash and cash equivalents		(9,921)	11,476	(9,031)
Cash and cash equivalents at beginning of the year	9	10,106	185	11,661
Cash and cash equivalents at end of the year	9	185	11,661	2,630

NOTES TO THE ADDITIONAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Target Business comprises Libao Water, Qutang Water and Hongze Water, all of which are directly or indirectly owned by Jiangsu Tianying. The Target Business is primarily involved in the development, design, construction, operation and maintenance of wastewater treatment facilities in the PRC.

2 BASIS OF PRESENTATION

The combined financial information has been prepared for inclusion in the prospectus as the Group intends to acquire the Target Business. The combined financial information has been prepared in accordance with IFRSs and under the historical cost conversion. The accounting policies of the Target business follow the Group's accounting policies set out Note 2 of Section II.

Since the Target Business is controlled by Jiangsu Tianying and has been managed as a business together, for the purpose of this report, the financial information has been presented on a combined basis. The financial information has been prepared to present the combined balance sheets as at 31 December 2014 and 2015 and 2016, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Target Business for each of the years ended 31 December 2014, 2015 and 2016.

All intra-group transactions and balances have been eliminated on combination.

3 LAND USE RIGHTS

The Target Business's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Cost	7,990	7,990	7,990
Accumulated amortisation	(825)	(985)	(1,145)
Net book value	7,165	7,005	6,845
Opening net book value	7,325	7,165	7,005
Amortisation charges *(Note 16)*	(160)	(160)	(160)
Closing net book value	7,165	7,005	6,845

4 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014				
Cost	9,278	6,507	326	16,111
Accumulated depreciation	(795)	(1,754)	(238)	(2,787)
Net book value	8,483	4,753	88	13,324
Year ended 31 December 2014				
Opening net book value	8,483	4,753	88	13,324
Additions	–	160	5	165
Depreciation *(Note 16)*	(300)	(591)	(36)	(927)
Closing net book value	8,183	4,322	57	12,562
At 31 December 2014				
Cost	9,278	6,667	331	16,276
Accumulated depreciation	(1,095)	(2,345)	(274)	(3,714)
Net book value	8,183	4,322	57	12,562
Year ended 31 December 2015				
Opening net book value	8,183	4,322	57	12,562
Additions	–	291	17	308
Depreciation *(Note 16)*	(290)	(628)	(31)	(949)
Closing net book value	7,893	3,985	43	11,921
At 31 December 2015				
Cost	9,278	6,958	348	16,584
Accumulated depreciation	(1,385)	(2,973)	(305)	(4,663)
Net book value	7,893	3,985	43	11,921
Year ended 31 December 2016				
Opening net book value	7,893	3,985	43	11,921
Additions	–	1,095	3	1,098
Disposal	–	–	(1)	(1)
Depreciation *(Note 16)*	(292)	(694)	(15)	(1,001)
Closing net book value	7,601	4,386	30	12,017
At 31 December 2016				
Cost	9,278	8,053	350	17,681
Accumulated depreciation	(1,677)	(3,667)	(320)	(5,664)
Net book value	7,601	4,386	30	12,017

(a) The net book value of property, plant and equipment pledged as collateral for borrowings (Note 13) as at the respective balance sheet dates were as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Buildings and facilities	–	7,682	–
Machinery and equipment	–	3,398	–
	–	11,080	–

5 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

Hongze Water has entered into certain arrangements with governmental authorities in the PRC under BOT models in respect of its wastewater treatment (the "Facilities"). These service concession arrangements generally involve Hongze Water as an operator (i) constructing the Facilities for those arrangements under BOT models; and (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 30 to 33 years (the "Service Concession Periods"), and Hongze Water will be paid for its services over the service concession periods at prices stipulated through a pricing mechanism. Hongze Water is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Hongze Water must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between Hongze Water and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by Hongze Water, specific obligations levied on Hongze Water to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

The effective interest rate fell within the range from 8.35% to 8.52%.

The following is the summarised information of the financial asset component (receivable under a service concession arrangement) with the respect to the Hongze Water, Libao Water and Qutang Water's service concession arrangements:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Receivables under service concession arrangements			
Current portion:	1,383	4,130	2,272
Non-current portion:	27,847	26,634	28,155
	29,230	30,764	30,427

In respect of Hongze Water's receivables under service concession arrangements, Hongze Water has different credit policies, depending on the locations in which they operate. Collection of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of Hongze Water's service concession arrangements. Based on past experience, the directors of Hongze water 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 still considered fully recoverable.

The directors of Hongze Water are of the view that, as at 31 December 2014 and 2015 and 2016, none of the receivables under service concession arrangements is past due or impaired.

All the receivables under service concession arrangements were pledged as collateral for the borrowings (Note 13).

6 INTANGIBLE ASSETS

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Operating Concession			
Cost	9,706	9,706	9,706
Accumulated amortisation	(2,132)	(2,426)	(2,720)
Net book value	7,574	7,280	6,986
Opening net book value	7,868	7,574	7,280
Amortisation *(Note 16)*	(294)	(294)	(294)
Closing net book value	7,574	7,280	6,986

(a) The net book value of intangible assets pledged as collateral for borrowing (Note 13) as at the respective balance sheet dates were as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Intangible assets recognised under BOT	7,574	7,280	–

7 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Costs incurred to date plus recognised profits less recognised losses			
Current portion:	2,781	2,920	3,796
Non-current portion:	43,944	47,350	49,632
	46,725	50,270	53,428

8 TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade receivables *(Note (a))*:			
– Local government	11,539	14,371	5,189
Trade receivables – net	11,539	14,371	5,189
Other receivables:			
– Third parties	7,715	10,353	7,990
– Related parties *(Note 23)*	7,357	35,828	–
Other receivables – net	15,072	46,181	7,990
Prepayments:			
– Others	572	752	365
Prepayments – net	572	752	365
Trade and other receivables – net	27,183	61,304	13,544

As at 31 December 2014, 2015 and 2016, the fair value of the current portion of trade and other receivables of the Target Business, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2014, 2015 and 2016, the carrying amounts of trade and other receivables are denominated in RMB.

(a) Ageing analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates or contractual terms, are as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
– Within one year	4,469	4,230	5,189
– Over one year and within two years	3,542	3,524	–
– Over two years and within three years	3,405	3,522	–
– Over three years	123	3,095	–
	11,539	14,371	5,189

Based on the past experiences, the directors believe that no impairment allowance is necessary because the customers are mainly local government authorities and there has not been a significant change in their credit quality. Accordingly, these long-aged balances are considered fully recoverable.

The Target Business does not hold any collateral as security over these debtors.

9 CASH AND CASH EQUIVALENTS

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents *(Note (a))*	185	11,661	2,630

(a) All cash and cash equivalents are denominated in RMB.

(b) All cash at bank are deposits with original maturity within 3 months. Hongze Water, Libao Water and Qutang Water earn interest on cash at bank at floating bank deposit rates ranged from 0.35% to 0.39% during the Relevant Periods.

10 COMBINED CAPITAL

	As at 31 December		
	2014	2015	2016
Registered, issued and fully paid			
Combined capital (in RMB'000)	20,800	20,800	20,800

11 STATUTORY RESERVES

	Statutory reserve
	RMB'000
At 1 January 2014	2,329
Appropriation to statutory reserve	756
At 31 December 2014	3,085
Appropriation to statutory reserve	751
At 31 December 2015	3,836
Appropriation to statutory reserve	982
At 31 December 2016	4,818

In accordance with the PRC Company Law and the articles of association of the PRC companies of the Target Business (the "PRC Companies"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the registered capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the registered capital of the respective PRC Companies.

At 31 December 2014, 2015 and 2016, Libao Water and Qutang Water were still under accumulated loss, thus appropriation for statutory surplus reserve was not required. Hongze Water allocated 10% of its profit to statutory surplus reserve.

12 RETAINED EARNINGS

	Retained earnings
	RMB'000
At 1 January 2014	20,667
Profit for the year	7,776
Appropriation to statutory reserve	(756)
At 31 December 2014	27,687
Profit for the year	6,138
Appropriation to statutory reserve	(751)
At 31 December 2015	33,074
Profit for the period	8,891
Provision for other reserve	(982)
Dividends declared to the then shareholders of the Target Business *(Note 21)*	(14,466)
At 31 December 2016	26,517

13 BORROWINGS

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Non-current:			
Secured long-term borrowings *(Note (a))*	4,735	31,396	–
Current:			
Unsecured short-term borrowings	–	20,000	–
Secured short-term borrowings *(Note (a))*	3,691	19,652	–
Total current borrowings	3,691	39,652	–
Total borrowings	8,426	71,048	–

(a) As at 31 December 2014, 2015 and 2016, analysis of the secured borrowings are as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Secured borrowings of Libao Water and Qutang Water (i)	–	45,955	–
Secured borrowings of Hongze Water (ii)	8,426	5,092	–
	8,426	51,047	–

(i) Borrowings of Libao Water and Qutang Water were secured by property, plant and equipment (Note 4).

(ii) Borrowings of Hongze Water were secured by receivables under service concession arrangements (Note 5) and intangible assets of operating concession (Note 6).

(b) The maturity of borrowings is as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
On demand or within 1 year (i)	3,691	39,650	–
Between 1 and 2 years	3,731	17,930	–
Between 2 and 5 years	1,004	13,468	–
	8,426	71,048	–

(i) The borrowings were early repaid by the end of 31 December 2016.

(c) The weighted average effective interest rates at each balance sheet date were as follows:

	As at 31 December		
	2014	2015	2016
Borrowings	7.09%	7.28%	–

(d) The fair values of current borrowings equal their carrying amount as the discounting impact is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of non-current borrowings approximated to their carrying amount.

14 TRADE AND OTHER PAYABLES

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Trade payables	550	816	340
Other payables due to:	63,509	42,756	56,623
– related parties *(Note 23)*	63,274	41,990	8,875
– third parties	235	766	47,748
Staff salaries and welfare payables	87	107	124
Advance from customers	8	–	–
– third parties	8	–	–
Payables on acquisition of property, plant and equipment due to:	771	296	129
– related parties *(Note 23)*	672	263	–
– third parties	99	33	129
Interest payables	–	–	236
Dividend payables	–	–	8,084
Accrued taxes other than income tax	49	–	129
	64,974	43,975	65,665

(a) As at 31 December 2014, 2015 and 2016, all trade and other payables of the Target Business were non-interest bearing, and their fair values, except for the advance from customers which are not financial liabilities, approximated their carrying amounts due to their short maturities.

(b) During the Relevant Period, the Target Business' trade and other payables are denominated in RMB.

(c) As at 31 December 2014, 2015 and 2016, the ageing of the trade payables to third parties was within one year.

(d) Included in the other payable to third parties is the payable to the Group of RMB47,748,000 as at 31 December 2016.

15 REVENUE

The Target Business are principally engaged in wastewater treatment in the PRC.

(a) Revenue from wastewater treatment

The revenue of Hongze Water, Libao Water and Qutang Water for each of the years ended 31 December 2014, 2015 and 2016 are set out as follows:

Hongze Water

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Operating services – under BOT model	6,757	6,399	8,264
Finance income	2,981	2,814	2,671
	9,738	9,213	10,935

Libao Water

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Operating services – under BOO model	1,752	1,624	1,646

Qutang Water

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Operating services – under BOO model	1,770	1,641	2,114

16 EXPENSES BY NATURE

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Utilities and electricity	2,334	2,012	1,779
Labour costs	1,069	1,303	1,416
Depreciation of properties, plant and equipment *(Note 4)*	927	949	1,001
Material cost and costs for sludge treatment	503	630	642
Repair and maintenance costs	465	408	282
Amortisation of intangible assets *(Note 6)*	294	294	294
Employee benefit expenses	294	383	637
Amortisation of land use rights *(Note 3)*	160	160	160
Taxes and levies	55	363	288
Office expenditures	48	61	21
Transportation costs	49	40	43
Professional expenses	6	44	1,274
Miscellaneous	175	605	332
Total cost of sales and administrative expenses	6,379	7,252	8,169

17 OTHER INCOME

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Government grants:			
– Tax refund	–	390	2,190
– Others	3	3	80
	3	393	2,270

18 OTHER LOSSES – NET

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Penalties	25	385	327
Others	–	(17)	11
	25	368	338

19 FINANCE COSTS – NET

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Finance costs:			
– Interest expenses on borrowings	2,689	2,096	5,544
– Others	4	1,507	99
	2,693	3,603	5,643
Finance income:			
– Interest income arising from construction contracts	(6,017)	(6,464)	(7,919)
– Interest income charged to related parties *(Note 23)*	(156)	(559)	(758)
	(6,173)	(7,023)	(8,677)
	(3,480)	(3,420)	(3,034)

20 INCOME TAX EXPENSE

The amounts of income tax expense charged to the combined statements of comprehensive income represent:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Current income tax	2,563	2,533	3,277

Under the CIT Law and implementation Regulations of the CIT Law, the tax rate is 25% from 1 January 2008. The income tax rate of 25% is applicable to Hongze Water, while Libao Water and Qutang Water enjoys certain tax exemption or reduction during the Relevant Periods, which was discussed as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Profit before income tax	10,339	8,671	12,168
Tax calculated at the domestic CIT rate applicable	2,585	2,168	3,042
Tax effect of:			
Expenses not deductible for tax purpose *(Note (i))*	25	385	329
Effect of tax reductions *(Note (ii))*	(75)	(364)	(233)
Tax losses and other temporary differences for which no deferred tax assets was recognised	28	344	139
Income tax expense	2,563	2,533	3,277

(i) Expenses not deductible for tax purpose primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law and administrative penalties.

(ii) Libao Water and Qutang Water are exempt from CIT from 2011 to 2013 and enjoy a 50% tax reduction from 2014 to 2016.

21 DIVIDENDS

As approved by the shareholders' meeting on 30 April 2016, Hongze Water declared a dividend of RMB14,466,000. Unpaid dividends of RMB8,084,000 was reflected as a liability in trade and other payables as at 31 December 2016.

22 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	**RMB'000**	**RMB'000**
Profit for the year before income tax	10,339	8,671	12,168
Adjustments for:			
– Depreciation of property, plant and equipment	927	949	1,001
– Amortisation of land use rights	160	160	160
– Amortisation of intangible assets	294	294	294
– Losses on disposal of property, plant and equipment	–	–	1
– Finance costs – net	(3,480)	(3,420)	(3,034)
	(2,099)	(2,017)	(1,578)
Changes in working capital:			
– Decrease in trade and other receivables	26,082	21,320	47,760
– (Increase)/decrease in inventories	(17)	6	9
– Increase in amount due from customers for construction contracts	(3,235)	(3,545)	(3,158)
– Decrease/(increase) in receivables under service concession arrangements	1,650	(1,534)	337
– (Decrease)/increase in trade and other payables	(17,295)	(20,524)	12,831
Cash generated from operations	15,425	2,377	68,369

23 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Target Business and its related parties in the ordinary course of business during the years ended 31 December 2014, 2015 and 2016, and balances arising from related party transactions as at 31 December 2014, 2015 and 2016.

(a) Name and relationship with related parties

Name of related party	Nature of relationship
Jiangsu Tianying	Parent company of Libao Water and Qutang Water, and parent company of Jiangsu Tianyingsaite Environment and Energy Group
Jiangsu Tianyingsaite Environment and Energy Group (江蘇天楹賽特環保能源集團有限公司)	Parent company of Hongze Water and a subsidiary of Jiangsu Tianying
Nantong Qianchuang Investment Co., Ltd. (南通乾創投資有限公司)	Controlled by Jiangsu Tianyingsaite Environment and Energy Group
Nantong Kunhou Trading Co., Ltd. (南通坤厚商貿有限公司)	Controlled by Jiangsu Tianyingsaite Environment and Energy Group
Jiangsu Follet Electromechanical Equipment Co. Ltd. (江蘇佛來特機電成套設備有限公司)	Controlled by Jiangsu Tianyingsaite Environment and Energy Group

(b) Transactions with related parties

(i) Purchase of property, plant and equipment

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Jiangsu Follet Electromechanical Equipment Co. Ltd.	672	263	–

Transactions other than purchase of property, plant and equipment are amounts received or paid on behalf of related parties, or advance to or from related parties.

(ii) Loans granted to related parties

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Jiangsu Tianying Water Development Co., Ltd.	–	56,000	–

(iii) Interest income from related parties

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Jiangsu Tianying	156	559	758

(c) Balances with related parties

(i) Trade and other receivables due from related parties

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Jiangsu Tianying Water Development Co., Ltd.	6,202	3,614	–
Nantong Kunhou Trading Co., Ltd.	1,105	13,259	–
Jiangsu Tianyingsaite Environment and Energy Group	50	18,955	–
	7,357	35,828	–

(ii) Trade and other payables due to related parties

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Jiangsu Tianyingsaite Environment and Energy Group	63,274	41,990	4,439
Nantong Qianchuang Investment Co., Ltd.	–	–	4,436
Nantong Kunhou Trading Co., Ltd.	–	–	–
Jiangsu Follet Electromechanical Equipment Co. Ltd.	672	263	–
	63,946	42,253	8,875

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2016 and up to the date of this report. Save as disclosed elsewhere in this report, no dividend or distribution have been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31 December 2016.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this Appendix II does not form part of the "Accountant's Report" from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the "Accountant's Report" set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2016 as if the Global Offering had taken place on that date.

This unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group as at 31 December 2016 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of the Group as at 31 December 2016 as set out in the "Accountant's Report" of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2016	Unaudited pro forma adjusted net tangible assets per Share	
	Note 1	Note 2		Note 3	Note 5
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$4.70 per H Share	2,419,111	1,191,204	3,610,315	3.51	3.94
Based on an Offer Price of HK$3.91 per H Share	2,419,111	982,942	3,402,053	3.31	3.72

Notes:

(1) The audited consolidated net tangible assets attributable to equity holders of the Company as at 31 December 2016 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 December 2016 of RMB2,494,308,000 with an adjustment for the intangible assets as at 31 December 2016 of RMB75,197,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$4.70 and HK$3.91 per H Share after deduction of the estimated underwriting fees and other related expenses (excluding listing expenses of approximately RMB3,916,000 which have been accounted for in the consolidated statement of comprehensive income prior to 31 December 2016) payable by us, and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,028,572,000 Shares were in issue assuming that the Global Offering has been completed on 31 December 2016 but takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2016.

(5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi are converted in to Hong Kong dollars at the rate of RMB1.000 to HK$1.1236. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Kunming Dianchi Water Treatment Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kunming Dianchi Water Treatment Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 24 March 2017, in connection with the proposed initial public offering of the H shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described 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 initial public offering on the Group's financial position as at 31 December 2016 as if the proposed initial public offering had taken place at 31 December 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 December 2016, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

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Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) 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 plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For 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 a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity 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 proposed initial public offering at 31 December 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 provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The 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 company, 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 of the Company 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 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 March 2017

TAXATION

The following is a summary of certain PRC and Hong Kong tax consequences to investors purchased under the Global Offering and held as capital assets. 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 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 in this prospectus does not address any aspect of Hong Kong or the PRC taxation other than income tax, capital tax, stamp duty, business tax and estate duty. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of 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. 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》) signed on January 30, 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》) signed on May 27, 2010 and *the fourth 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四議定書》) signed on April 1, 2015 (collectively, the "**Arrangements**"), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

Dividends

Individual investors

According to *the Individual Income Tax Law of the PRC* (《中華人民共和國個人所得稅法》) (the "**Individual Income Tax Law**") promulgated on September 10, 1980, as amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007, June 30, 2011, and *the Provision for Implementation* of *the Individual Income Tax Law* (《中華人民共和國個人所得稅法實施條例》) (the "**Provision for Implementation**") promulgated on January 28, 1994, as amended on December 19, 2005, February 18, 2008 and July 19, 2011, dividends paid by PRC companies to individuals are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the financial department of the State Council or reduced by an applicable tax treaty.

Pursuant to *the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45* (《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》) (Guo Shui Han [2011] No. 348) promulgated by the SAT on June 28, 2011, if a domestic non-foreign-invested enterprise issues its shares in Hong Kong, its non-PRC resident individual shareholders may be entitled to preferential tax treatment in accordance with the applicable tax treaties between the PRC and the countries in which they are tax residents and the applicable tax arrangements between the Mainland China and Hong Kong (Macau). In general, the distribution of dividends by a domestic non-foreign-invested enterprise whose shares are issued and listed in Hong Kong is subject to withholding at a rate of 10% and there is no need to apply to the tax authorities in the PRC to qualify for this rate. If the tax rate specified in the relevant tax treaty or arrangement is lower than 10%, an individual shareholder who receives dividends may apply for a refund of the excess amount withheld, subject to the approval of the competent tax authority. If an individual shareholder is a resident of a country which has entered into a tax treaty with the PRC and the agreed tax rate is higher than 10% but lower than 20%, his dividend will be subject to income tax at the agreed tax rate. If an individual shareholder is a resident of a country which has not entered into a tax treaty with the PRC, his dividend will be subject to income tax at a tax rate of 20%.

Enterprises

According to *the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得税法》) (the "**EIT Law**") and *the Provision for Implementation of Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得税法實施條例》) (the "**Implementation Regulations**"), which both became effective on January 1, 2008, a non-resident enterprise is subject to a 10% enterprise income tax on any income sourced from the PRC provided that such non-resident enterprise does not have an establishment or place of business in the PRC, or where there is an establishment or place of business, there is no connection between the income received and such establishment or place of business. Such withholding tax may be reduced pursuant to an applicable double taxation treaty or arrangement. The aforesaid income tax payable by the non-resident enterprises shall be withheld at source, for which the payer thereof shall be the withholding agent.

According to *the Notice of the State Administration of Taxation Regarding Questions on Withholding Enterprise Income tax on the Dividends Paid by PRC Resident Enterprises to Non-resident Enterprise Shareholders of H Shares* (《國家税務總局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税有關問題的通知》) (Guo Shui Han [2008] No. 897), which became effective on November 6, 2008, PRC enterprises must withhold enterprise income tax at a rate of 10% when they distribute dividends to non-resident enterprise shareholders of H shares. Pursuant to that notice, we intend to withhold tax at 10% from dividends payable to non-PRC resident enterprise holders of H Shares.

According to *the Official Reply of the State Administration of Taxation on Imposition of Enterprise Income Tax on B-share Dividends of Non-resident Enterprises* (《國家税務總局關於非居民企業取得B股等股票股息徵收企業所得税問題的批覆》) (Guo Shui Han [2009] No. 394) issued by SAT on July 24, 2009, any Chinese resident enterprise that publicly offers or lists its shares (A-share, B-share and Overseas Share) within or outside the territory of China shall uniformly withhold and remit 10% of the dividends distributed to non-resident enterprise shareholders as enterprise income tax for any such distributions made in and after 2008. Where any non-resident enterprise shareholder is entitled to the tax agreement treatment, the relevant provisions of the tax agreement shall prevail.

Tax treaties

Investors who are not residents of the PRC and reside in countries that have entered into treaties for the avoidance of double taxation with the PRC or reside in Hong Kong Special Administrative Region or Macau Special Administrative Region may be entitled to a reduction of tax on dividends paid by PRC companies. The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong Special Administrative Region and Macau Administrative Region, and has signed treaties for the avoidance of double taxation with a number of other countries, which include but are not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable tax rate, and payment of such refund will be subject to the PRC tax authorities approval.

According to *the Arrangement between the Mainland China and Hong Kong for the Avoidance of Double Taxation 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 payable by a PRC company to a Hong Kong resident (including specified natural person and legal entity), but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident company holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by such PRC company.

Furthermore, pursuant to the *Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements* (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and effective from February 20, 2009, all of the following requirements must be satisfied for a non-resident enterprise shareholder to be entitled to the benefits of an applicable double taxation treaty or arrangement for dividends paid to it by a Chinese resident company: (a) such an entity must be a company as provided in the tax agreement; (b) such an entity must directly own a specified percentage of equity interest and voting shares of the Chinese resident company; and (c) the equity interests of the Chinese resident company directly owned by such an entity, at any time during the twelve months prior to the receipt of dividends, must reach a percentage specified in the tax agreement.

In addition, according to *The Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial)* (《非居民享受稅收協定待遇管理辦法(試行)》) ("**Administrative Measures**") which came into force on October 1, 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under an applicable tax treaty or arrangement, it must submit an application to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the applicable tax treaty or arrangement.

Taxes Related to Share Transfer

Individual investors

With respect to individual holders of H Shares, *the Individual Income Tax Law* and *Provision for Implementation* generally stipulate that gains derived from the disposition of property shall be subject to income tax at a rate of 20%. In addition, the Provisions stipulate that measures for the levying of individual income tax on gains derived from the sale of equity securities shall be formulated separately by the MOF and shall be implemented following approval of the State Council. Under *the Circular Declaring that individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares* (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, from January 1, 1997, income of individuals from the transfer of shares of listed enterprises was exempted from individual income tax. After the latest amendment to *the Individual Income Tax Law* on June 30, 2011 and *the Provision for Implementation* amended on July 19, 2011 and implemented on September 1, 2011, the SAT has not explicitly stated whether it will continue to exempt individual income tax on income derived by individuals from the transfer of listed shares. However, on December 31, 2009, the MOF, the SAT and the SCRC jointly issued *the Circular on Relevant Issues Concerning the Collection of Individually Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation* (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) (Cai Shui [2009] No. 167), providing that individuals' income from transferring listed shares on certain domestic exchanges generally will be exempted from the individual income tax, except for the shares of certain specified companies which are subject to sales limitations (as defined in the supplementary notice of such Circular issued on November 10, 2010). As of the Latest Practicable Date, the aforesaid provision has not expressly provided that the above exemption applies to non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not sought to collect income tax on non-PRC resident individuals on gains from the sale of listed shares of PRC resident enterprises on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change these practices which could result in levying income tax on non-PRC resident individuals on gains from the sale of our H Share. Such tax may be reduced or eliminated pursuant to an applicable tax treaty.

Enterprises

According to *the EIT Law* and *the Implementation Regulations*, a non-resident enterprises shall be subject to 10% enterprise tax for income sourced from the PRC provided that the non-resident enterprises do not have an establishment or place of business in the PRC, or where there is an establishment or place of business, there is no connection between the gains received and such establishment or place of business. Such income tax may be reduced or eliminated pursuant to an applicable double taxation treaty.

PRC Stamp Duty

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of *the Provisional Regulations of the PRC Concerning Stamp Duty* (《中華人民共和國印花稅暫行條例》) and *the Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty* (《中華人民共和國印花稅暫行條例施行細則》), which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Duty

No estate duty is imposed by the PRC government.

Certain Taxes Applicable to the Company

Enterprise income tax

In accordance *with the Enterprise Income Tax Law of the People's Republic of China* ("**EIT Law**") (《中華人民共和國企業所得稅法》) promulgated on March 16, 2007 and *the Regulations for the Implementation of the Enterprise Income Tax Law* (《企業所得稅法實施條例》) promulgated on December 6, 2007, domestic enterprises and foreign-invested enterprises are subject to enterprise income tax at a uniform rate of 25%. In accordance with pertinent taxation laws and administrative regulations, the EIT Law and its implementation regulations provides for a five-year transition period in respect of enterprises incorporated prior to March 16, 2007 and entitled to concessions in enterprise income tax, so that the applicable tax rates for such enterprises would gradually be standardized at 25%. Enterprises entitled to fixed tax holiday or fixed tax reduction/exemption may continue to enjoy such concessions in the same manner as stipulated by the State Council until the expiration of the tax holiday or the concession period. For enterprises who have not benefited from such concession due to the absence of profit, the concession period started from the effective date of the EIT Law, January 1, 2008.

Value added tax ("VAT")

Pursuant to *the Provisional Regulations on Value-added Tax of the PRC* (《中華人民共和國增值稅暫行條例》) (the "**VAT Regulations**"), which was amended by the State Council on November 5, 2008 and became effective on January 1, 2009, and its implementation rules (《中華人民共和國增值稅暫行條例實施細則》), which was amended by the MOF on October 28, 2011, entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC must pay value-added tax. Unless provided otherwise, a tax rate of 17% shall be levied on most of general taxpayers selling or importing various goods. The rate applicable to the export of goods by taxpayers is nil, unless otherwise stipulated.

Pursuant to *the Pilot Scheme for the Conversion of Business Tax to VAT* (《營業稅改徵增值稅試點方案》) (Cai Shui [2011] No. 110) promulgated by the MOF and the SAT on November 16, 2011, since January 1, 2012 the State started to introduce taxation reform in certain service industries (namely transportation and certain modern service industries) which are subject to business tax in a gradual manner, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in certain regions including Shanghai and Beijing. The MOF and the SAT further notified that the aforesaid pilot scheme for the conversion of business tax to VAT will be implemented nationwide beginning August 1, 2013. As of the Latest Practicable Date, the value-added tax has been implemented thoroughly.

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》) enacted on August 6, 1988 and summarily revised on January 8, 2011 and *the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Stamp Tax* (《中華人民共和國印花稅暫行條例施行細則》) enacted on September 29, 1988, all entities and individuals executing or receiving taxable documents within the PRC must pay stamp duty. The list of taxable documents includes 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 documents in the nature of contracts, title transfer deeds, business account books, certificates of rights, licenses and other documents confirmed to be taxable by the MOF.

FOREIGN EXCHANGE CONTROLS OF THE PRC

Foreign exchange are strictly controlled in the PRC, but trend to deregulate in recent years. There are hundreds of regulations and rules about foreign exchange control in China, and the general one is *Regulations of the People's Republic of China on Foreign Exchange Control* (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on January 29, 1996, as amended on January 14, 1997 and April 5, 2008. These Regulations are formulated for the purpose of strengthening foreign exchange control, facilitating equilibrium in the balance of international payments, and promoting the healthy development of the national economy. The foreign exchange control department of the State Council (State Administration of Foreign Exchange, SAFE) is the competent authority performs the functions of foreign exchange control and undertakes responsibilities.

These Regulations is applicable to all the receipts and payments of foreign exchange or foreign exchange operation activities of domestic institutions or individuals and the receipts and payments of foreign exchange or foreign exchange operation activities in China of overseas institutions or individuals. A financial institution engaged in foreign exchange business shall report to the relevant foreign exchange control organs in accordance with the law on its client's foreign exchange receipts and payments and the changes to the client's foreign exchange account.

Pursuant to *Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理規定》), issued by the PBOC on June 20, 1996 and effective from July 1, 1996, any domestic institution, individual, or foreign institution situated in China and a foreigner coming to China who conducts the settlement and purchase of foreign exchange, opening of the foreign exchange account and outbound payments should comply with these Regulations.

Foreign exchange control in the PRC covered almost all the economic activities involving foreign exchange, it includes foreign exchange control for current account transactions, foreign exchange control for capital account transactions, control of foreign exchange operations of financial institutions, and administration of Renminbi exchange rate and the foreign exchange market. For its complexity, any person wishing to have detailed information on the PRC foreign exchange control is recommended to seek independent and professional advice.

On December 26, 2014, the SAFE promulgated *the Notice of the State Administration of Foreign Exchange on Issues concerning the Foreign Exchange Administration of Overseas Listing* (《國家外匯管理局關於境外上市外匯管理有關問題的通知》). Pursuant to the Notice, domestic companies should, within 15 working days after the completion of the initial offering of shares for its overseas listing, go through the registration of overseas listing with the Foreign Exchange Bureau at its place of registration. And if a domestic shareholder intends to increase or reduce its holdings of overseas shares after the company is listed overseas, it should go through the registration of overseas shareholding with the Local Foreign Exchange Bureau within 20 working days prior to the intended increase or reduce its holdings of overseas shares.

TAXATION IN HONG KONG

Tax on Dividends

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.

Taxation on Capital Gains and Profits

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 H Shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate on unincorporated business of 15.0%. 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.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the greater of the consideration for, or the market value of, the H Shares transferred on each of the seller and purchaser, will be payable by the purchaser on every purchase and by the seller on every sale of H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK$4.70 is currently payable on each instrument of transfer of H Shares (if required). Where one of the parties to a transfer is resident outside Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

This Appendix contains a summary of laws and regulations on companies and securities in the PRC, certain major differences between the PRC Company Law and Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance as well as the additional regulatory provisions of the Hong Kong Stock Exchange on joint stock limited companies of the PRC. The principal objective of this summary is to provide potential investors with 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 see section headed "Regulations" in this prospectus.

PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》) (the "**Constitution**") and is made up of written laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties of which the PRC government is a signatory, and other regulatory documents. Court verdicts do not constitute binding precedents. However, they may be used as judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the "**Legislation Law**"), the NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC 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 and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, PBOC, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate rules.

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 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 or 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 and the Legislation Law, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, the Supreme People's Court of the PRC (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. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

PRC JUDICIAL SYSTEM

Under the Constitution and the PRC Law on the Organization of the People's Courts (《中華人民共和國人民法院組織法》), 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 the civil 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 or an order 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 PRC Civil Procedure Law (《中華人民共和國民事訴訟法》) (the "**Civil Procedure Law**"), which was adopted in 1991 and amended in 2007 and 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 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. 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 domicile, the place of execution or implementation of the contract or the place of the object of the action, provided that the provisions of this law 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. There are time limits of two years imposed on the right to apply for such enforcement. 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.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognised and enforced by the people's court according to PRC enforcement procedures if the PRC has entered into or acceded to an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security or against social and public interest.

THE 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 the PRC:

- 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 on 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;

- The Special Regulations of the State Council on Share Offering and Listing Overseas by Joint-Stock Limited Liability Companies (the "**Special Regulations**") which were promulgated by the State Council on August 4, 1994 pursuant to Articles 85 and 155 of the Company Law in force at that time, and were applicable, to the overseas share subscription and listing of joint stock limited companies; and

- The Mandatory Provisions of Articles of Association of Companies Listing Overseas (the "**Mandatory Provisions**") which were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on August 27, 1994, stating 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 the section headed "Appendix V — Summary of the Articles of Association" in this prospectus.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General

A joint stock limited company refers to an enterprise legal person incorporated under the 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 state-owned enterprise ("**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 joint stock limited company shall conduct its business in accordance with laws and administrative regulations. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. Unless otherwise provided by law, the joint stock limited company may not be a contributor that undertakes joint and several liabilities for the debts of the invested companies.

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 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.

According to the Securities Law of the PRC (《中華人民共和國證券法》) (the "**PRC Securities Law**"), the total share capital of a company seeking to list its shares on a stock exchange shall be no less than RMB30 million.

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 at least half 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 (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) promulgated by the State Council on April 22, 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters of such company are required to sign on this prospectus to ensure that this prospectus does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint and several responsibility for it.

Share Capital

The promoters of a company can make capital contributions in cash or in kind, which can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the China Securities Regulatory Commission (the "**CSRC**"). Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by laws or administrative regulations. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

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.

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 programme 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 Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary term and may be transferred in accordance with the law. Pursuant to the Special Regulations, overseas listed and foreign invested shares issued shall be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall also be in registered form.

Under the 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 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 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 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 10 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;
- it shall apply to the relevant administration of industry and commerce for the registration of the reduction in registered capital.

Repurchase of Shares

According to the 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; and (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.

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 10 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 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 shareholder's 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 shareholder's general meeting or five days prior to any base date for determination of dividend distributions.

Under the Company law, 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 the senior management shall declare to the company 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 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 shareholder's 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 shareholder's general meetings and board of directors where the articles of association is violated by the above resolutions;

- 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 Company Law.

Under the 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 loss 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;
- 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 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 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 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 extraordinary shareholder's general meetings shall be given to all shareholders 15 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the registered shareholders 45 days in advance 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.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Special Regulations and the Mandatory Provisions, shareholder's 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 Mandatory Provisions, 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 annual shareholder's 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 shareholder's general meeting shall be placed in the agenda of the meeting.

Under the 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 vote equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the 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-thirds 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 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 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 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 duly 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 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 in 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 formulate the company's basic management system; and
- to exercise any other power under the articles of association.

Board Meetings

Under the 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 proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the board of supervisors. 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 half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. 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 authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, 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 objection was recorded in the minutes of the meeting, such director may be released from that liability.

Chairman of the Board

Under the Company Law, the board of directors shall appoint a chairman and may appoint a vice chairman. 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 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 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 an 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 an 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.

Board of Supervisors

A joint stock limited company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the board of supervisors 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 board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the chairman of the board of supervisors is incapable of performing or not performing his duties, the vice chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the vice chairman of the board of supervisors 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 board of supervisors.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. 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 board of supervisors 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 the resolutions of shareholders' meeting;
- 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 extraordinary shareholders' 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 this law;
- to initiate proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against directors and senior management;
- other powers specified in the articles of association; and
- Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The board of supervisors may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

Manager and Senior Management

Under the 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 supervise the business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- to arrange for the implementation of the company's annual business plans and investment proposals;
- to formulate the general administration system of the company;
- to formulate the company's detailed rules;
- to recommend the appointment and dismissal of deputy managers and person in charge of finance;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- to other powers conferred by the board of directors or the articles of association.

The manager shall comply with other provisions of the articles of association concerning his/her powers. The manager shall attend board meetings.

According to the 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.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and have 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:

- misappropriation of the company's capital;
- depositing the company's capital 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 board of directors;

- entering into contracts or deals 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;

- accept and possess commissions paid by a third party for transactions conducted with the company;

- unauthorised divulgence of confidential business information of the company; or

- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Finance and Accounting

Under the 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 and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the Company Law, the company shall deliver its financial and accounting reports to all shareholders within the time limit stipulated in the articles of association and make its financial and accounting reports available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. It must also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory common reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory common 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 common reserve fund pursuant to the above provisions.

After allocation of the statutory common reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary common reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of common reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the Company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The Company's reserve fund 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 common reserve fund into capital, the balance of the statutory common 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 any individual.

Appointment and Retirement of Accounting Firms

Pursuant to the Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or 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 employs without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall employ an independent accounting firm complying with the relevant regulations of the State 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

According to the Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve is drawn. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed and foreign invested shares.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set out in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the company's approval department authorised by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and Liquidation

According to the 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; 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 more than 10% of the voting rights of all its shareholders, on the grounds that the company suffers significant hardship in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, it may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two thirds 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.

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 and request 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 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 10 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, 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 repayments are made in accordance to the foregoing provisions.

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 matters relating to 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 the registration authority of the company 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 intentional or gross negligence.

Overseas Listing

According to the Special Regulations, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed and 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 issue within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

If a registered share certificate is lost, stolen or destroyed, the relevant shareholder may apply, in accordance with the relevant provisions set out in the Civil Procedure Law, to a people's court to declare such certificate invalid. 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 and foreign invested share certificates is provided for in the Mandatory Provisions.

Suspension and Termination of Listing

The Company Law has deleted provisions governing suspension and termination of listing. The PRC Securities Law has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

(i) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;

(ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;

(iii) the company has committed a major breach of the law;

(iv) the company has incurred losses for three consecutive years; or

(v) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the PRC Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue 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 arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers 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.

The Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) deals with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation, penalties and dispute settlement.

On December 25, 1995, the State Council promulgated and implemented the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

The PRC Securities Law took effect on July 1, 1999 and was revised on August 28, 2004, October 27, 2005, June 29, 2013 and August 31, 2014, respectively. This is the first national securities law in the PRC, which is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises shall obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Currently, the issue 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.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "**Arbitration Law**") was passed by the Standing Committee of the NPC on August 31, 1994, became effective on September 1, 1995 and was amended on August 27, 2009. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is declared invalid.

The Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer. Matters in arbitration include any disputes or claims in relation to the issuer's affairs or as a result of any rights or obligations arising under its articles of association, the 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, must 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 the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) ("**CIETAC**") in accordance with its rules or the Hong Kong International Arbitration Centre ("**HKIAC**") in accordance with its Securities Arbitration Rules (the "**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. In accordance with the Arbitration Regulations of CIETAC (《中國國際經濟貿易仲裁委員會仲裁規則》) which was amended on November 4, 2014 and will be implemented on January 1, 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. The arbitration commission is established in Beijing and its branches and centres have been set up in Shenzhen, Shanghai, Tianjin and Chongqing.

Under the Arbitration Law and the 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 irregularity on the procedures or composition of arbitrators 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 recognised 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 recognised 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 recognise and enforce foreign arbitral awards on the principle of reciprocity 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.

An arrangement was reached between Hong Kong and the Supreme People's Court for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People's Court adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong (《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 under the Arbitration Law can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in the PRC.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

The Hong Kong company law does not provide for authorised share capital. The share capital of a Hong Kong company would be its issued share capital. The full proceeds of a share issue will be credited to share capital and becomes a company's share capital. The directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The Company Law does not provide for authorised share capital, either. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorised by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or undervaluation of the assets. There is no such restriction on a Hong Kong company under Hong Kong Law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

Under the Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares, as illustrated by the undertakings given by the Company and our controlling shareholder to the Hong Kong Stock Exchange.

Financial Assistance for Acquisition of Shares

The Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The Company Law has no special provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate 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 summarised in "Appendix V — Summary of the Articles of Association".

Under the Companies Ordinance, no rights attached to any class of shares can be varied except:

(i) If there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions;

(ii) If there are not relevant provisions in the articles of associations, then (1) with the consent in writing of at least three fourths of the total voting rights of holders of the shares in the class in question, or (2) with the approval of a special resolution of the holders of the relevant class at a separate meeting.

Directors, Senior Management and Supervisors

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respects of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Board of Supervisors

Under the Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisors committee. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders 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 a company from suing the directors in breach of their duties in its own name. The Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, the company may be wound up by the court if the court considers that it is just and equitable to do so, in addition, 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 make an appropriate order regulating the affairs of the company. Furthermore, under certain circumstances, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards.

The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' Meetings

Under the Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the notice period for an annual general meeting is at least 21 days and in any other case, at least 14 days for a limited company and at least 7 days for an unlimited company.

Quorum for Shareholders' Meetings

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 Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of 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 Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Section 674 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles of association to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Special Regulations, directors, supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Company Law and the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Certain provisions in the Articles of Association of our Company are summarised as follows.

SUMMARY OF ARTICLES OF ASSOCIATION

Our Company is a joint stock company incorporated under the Company Law with limited liability on December 23, 2010.

The Articles of Association include its constitutional documents.

This Appendix contains the summary of the principal provisions of the Articles of Association of our Company passed on June 23, 2016 which will be applicable following the listing of the H shares and come into effect on the date on which H shares become listed on the Stock Exchange. The main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association. The following information is only a summary, which does not contain all the information that is important for potential investors. As set out in the section headed "Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Delivered to the Registrar of Companies in Hong Kong" and "Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection" in this prospectus, the full text in Chinese of the Articles of Association is available for reference.

1. DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allocate and issue shares

The Articles of Association does not contain any clauses that authorise the Board of Directors to allocate or issue shares. The Board of Directors shall prepare proposals for share allotment or issue, which are subject to approval by the Shareholders at the general meetings by way of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in the relevant laws and administrative regulations.

(b) Power to dispose assets of our Company or any of our subsidiaries

In disposing of fixed assets, if the sum of the expected value of the fixed assets to be disposed of and the amount or value of the consideration received from the fixed assets of our Company disposed of within the four months immediately preceding this proposal for disposal exceeds 33% of the value of fixed assets of our Company shown on the latest audited balance sheet submitted to the Shareholders at the Shareholders' meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of Shareholders at the general meeting. The above disposal refers to the transfer of interests in certain assets, but does not include the provision of guarantees with fixed assets. The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Associations.

(c) Indemnification or compensation for loss of office

As provided in the contracts entered into between our 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 our Company, subject to the prior approval of the Shareholders at the general meeting. Acquisition of our Company refers to any of the following:

(i) An offer is made to all the Shareholders of our Company; or

(ii) An offer is made such that the offeror will become the Controlling Shareholder of our Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received by him shall belong to the person who sells the Shares for acceptance of the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person on pro rata basis, and all related expenses shall not be deducted from the payments distributed.

(d) Loans to Directors, Supervisors or other management personnel

Our Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a Director, Supervisor and senior management of our Company or our parent company or any of their respective associates.

In the event that our Company provides loans in violation of the above restriction, the person who receives the loan(s) must pay off the loan(s) immediately, regardless of the terms of the loans. Any loan guarantee provided by our Company in violation of the above restriction shall not be enforced against us, unless under the following circumstances:

(i) The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors and senior management of our Company or our parent company; or

(ii) The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

The following transactions are exempted from the above clauses:

(i) Our Company provides our subsidiaries with loans or loan guarantees;

(ii) Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other funds pursuant to the employment contract(s) approved at the Shareholders' meeting to pay all expenses incurred for the purpose of our Company or performing duties for our Company; and

(iii) In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or guarantees for loans, provided that the terms and conditions governing the above loans or loan guarantees shall be on normal commercial conditions.

For the purpose of the above provisions, "guarantee" includes the acts of the guarantor assume obligations or providing properties to ensure that the obligor performs the obligations.

(e) Financial assistance provided for acquisition of the Shares of our Company or our its subsidiaries

Pursuant to the Articles of Association:

(i) Our Company or our subsidiaries shall not, by any means at any time, provide any financial assistance to personnel who acquires or plans to acquire the Shares. Such personnel includes anyone who directly or indirectly assumes obligations from acquiring the Shares.

(ii) Our Company or our subsidiaries shall not, by any means at any time, provide financial assistance to personnel mentioned in the preceding paragraph for the purpose of mitigating or exempting the obligations of the above personnel.

The following transactions are not prohibited:

(i) Related financial assistance provided by our Company which is in good faith in our interest and the main purpose of the financial assistance is not to acquire the Shares or is incidental to a master plan of our Company;

(ii) Lawful distribution of our properties by our Company by way of dividend;

(iii) Distribution of dividends in the form of Shares;

(iv) Reduction of registered capital, repurchase of Shares or adjustments of our shareholding structure pursuant to the Articles of Association;

(v) Our Company grants loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in the reduction in the net assets of our Company or even if the net assets are reduced, this financial assistance is paid out of the profit available for distribution of our Company;

(vi) Our Company provides the employee stock ownership plan with funds, provided that such loans shall not result in the reduction in the net assets of our Company or even if the net assets are reduced, this financial assistance shall be paid out of the profit available for distribution of our Company.

For this purpose:

(i) "financial assistance" includes, but is not limited to:

(aa) Gift;

(bb) Guarantee (including the assumption of liabilities and provision of properties by a guarantor to secure the performance of obligations by the obligor), compensation (excluding compensation arising from mistakes of our Company) or release or waiver of any rights;

(cc) Assistance given by way of a loan; or entering into an agreement under which our Company is required to perform its obligations ahead of the other contracting parties; or entering into an agreement for the change of contracting parties or the assignment of rights arising under such loan or such agreement; or

(dd) Any other form of financial assistance given by our Company when it is insolvent or has no net assets or will suffer significant decrease in net assets as a result of the financial assistance; and

(ii) "Assuming obligations" includes assuming obligations by signing agreements or making arrangements (whether or not the agreements or arrangements are enforceable or assuming the obligations by itself or jointly with any other person) or changing its financial status in any other manner.

(f) Disclosure of matters relating to the contractual rights of our Company and voting on contract(s)

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors, general manager and other senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible regardless of whether such matters are subject to the approval of the Board of Directors in normal circumstances.

Unless the interested Director, Supervisor and senior management of our Company discloses his/her interests to the Board in accordance with the aforesaid provision and the contract, transaction or arrangement is approved by our Board at a meeting in which the interested Director, Supervisor and senior management is not counted in the quorum and refrains from voting, our 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 and senior management violating their obligations.

A Director, Supervisor, general manager or other senior management of our Company is deemed to be interested in such contract, transaction or arrangement in which his/her related person or associate is interested.

Where a Director, Supervisor or other senior management of our Company gives to the Board of Directors a notice in writing stating that, by reason of the facts specified in the notice, he/she is interested in contracts, transactions or arrangements which may subsequently be made by our Company, that notice shall be deemed for the purposes of the preceding article to be a sufficient disclosure of his/her interests, so far as the content stated in such notice is concerned, provided that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by our Company.

(g) Remuneration

Our Company shall enter into written agreements with its Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general Shareholder's meeting. The remuneration shall include:

(i) Remuneration as the Directors, Supervisors or senior management of our Company;

(ii) Remuneration as the directors, supervisors or senior management of the subsidiaries of our Company;

(iii) Remuneration for providing other services for management of our Company and our subsidiaries;

(iv) Compensation received by the Directors or Supervisors as a result of loss of office or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for the above contracts.

(h) Resignation, appointment and removal

None of the following persons shall serve as a Director, Supervisor, general manager or other senior management of our Company:

(i) Anyone who has no civil capacity or has limited 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 our Company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of our Company or enterprise;

(iv) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked or which was ordered to shut down 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 owes a huge amount of overdue debt;

(vi) Anyone who is under criminal investigation by a judicial organization for violating the criminal law and whose case is pending;

(vii) Anyone who cannot serve as management of a company under laws and administrative rules;

(viii) Anyone who is not a natural person;

(ix) 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;

(x) Other circumstances as provided by laws and regulations in the place where the Shares of our Company are listed.

The validity of the conduct of Directors, general manager or other senior management who have acted on behalf of our Company with respect to third parties who have acted in good faith shall not be affected due to any irregularity in the employment, election or qualification of such Directors, general manager or other senior management.

Our Company has a board of directors, which is consisted of seven Directors. Non-employee representative Directors shall be elected at a general meeting. A Director need not hold any Shares of our Company.

The chairman and the vice chairman of the Board shall be elected or removed by the majority of all Directors. Any Director whose term of office has not expired may be removed by an ordinary resolution.

The term of office of the chairman and other Directors shall be three years and they are eligible for re-election.

The list of Directors' and Supervisors' candidates shall be proposed in form of a motion to the general meeting for consideration.

(i) Borrowing Power

Subject to compliance with national laws and administrative regulations, our Company has the right to raise funds and obtain loans, including (but not limited to) issuing bonds, mortgaging or pledging all or part of the properties of our Company, as well as exercising other rights approved by national laws and administrative regulations, provided that such act shall not undermine or revoke the rights of any Shareholder.

The Articles of Association does not include any special provision regarding the manner in which the Directors may exercise the right to obtain loans or the manner in which such a right is created except (a) the provision regarding the power of the Directors to develop schemes for our Company to issue bonds, and (b) the provision that the bond issue must be approved by the Shareholders through a special resolution at the general meeting.

(j) Responsibilities

The Directors, Supervisors and senior management of our Company shall bear the responsibility of good faith and diligence towards our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors, general manager and senior management, our Company have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

(i) To require related Directors, Supervisors or senior management to compensate our Company for losses sustained as a result of their neglect of duty;

(ii) To rescind any contract or transaction entered into between our Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third person when the third person knew or should have known that the Directors, Supervisors or senior management acting violated their obligations owed to our Company;

(iii) To require the relevant Directors, Supervisors or senior management to turn over the benefit obtained from the violation of their obligations;

(iv) To recover funds collected by the relevant Directors, Supervisors or other senior management that should have been collected for our Company, including but not limited to commissions;

(v) To require the relevant Directors, Supervisors or senior management to return the interest earned or that may be earned from funds that should have been paid to our Company; and

(vi) To initiate legal procedures to request a ruling that our Company shall have the ownership of the property possessed by Directors, Supervisors, general manager and other senior management for breach of obligation.

The Board of Directors shall comply with laws, administrative regulations, the Articles of Association and resolutions passed at the general meeting in performing its duties. When performing their responsibilities, the Directors, Supervisors and senior management shall comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have assumed. This principle includes, but is not limited to, performing the following obligations:

(i) To act honestly in the best interests of our Company;

(ii) To exercise one's rights within but not exceeding the scope of authority;

(iii) To exercise the discretion vested in him personally without being manipulated by others and not transferring discretionary powers to other persons, unless and to the extent permitted by laws or administrative regulations or with the informed consent of Shareholders given in a general meeting;

(iv) To treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;

(v) Not to enter into any contract, transaction or arrangement with our Company unless in line with the Articles of Association or otherwise approved by Shareholders at the general meeting on an informed basis;

(vi) Not to use properties of our Company in any manner for his/her own benefit without consent of general meeting on an informed basis;

(vii) Not to exploit his/her position to accept bribes or other illegal income or misappropriate funds or expropriate properties of our Company by any means, including (but not limited to) opportunities beneficial to our Company;

(viii) Not to accept commissions in connection with transactions of our Company unless agreed by the general meeting on an informed basis;

(ix) To abide by the Articles of Association, faithfully execute official duties and protect interests of our Company, and not to exploit his/her position and authority in our Company for his/her own benefits;

(x) Not to compete with our Company in any manner unless agreed by the general Shareholders' meeting on an informed basis;

(xi) Not to misappropriate funds of our Company or lend such funds to others, not to open accounts in his/her own name or other names for deposit of the assets of our Company, and not to lend such funds or provide guarantee for the Shareholders of our Company or other individual(s) with the assets of our Company in violation of the Articles of Association and without a consent obtained at the general meeting; and

(xii) Not to disclose any confidential information acquired by him/her during his/her tenure in respect of our Company, unless otherwise permitted by the Shareholders at the general meeting on an informed basis; not to use such information unless in the interests of our Company; however, disclosure of such information to courts or other governmental authorities is permitted under the following circumstances: (aa) disclosure is required by laws; (bb) disclosure is required by public interests; (cc) disclosure is required by the interests of the relevant Director, Supervisor, general manager or other senior management.

None of the Directors, Supervisors, general manager or other senior management of our Company shall instruct any of the following personnel or institutions ("**related person**") to do acts that the Directors, Supervisors and senior management are prohibited from doing:

(i) Spouses or minor children of the Directors, Supervisors, general manager and other senior management of our Company;

(ii) Trustees of the Directors, Supervisors, general manager and other senior management of our Company or the persons referred to in item (i) above;

(iii) Partners of the Directors, Supervisors, general manager and other senior management of our Company or persons referred to in items (i) and (ii) above;

(iv) Companies under de facto control by the Directors, Supervisors, general manager and other senior management individually or jointly with one or more persons or other Directors, Supervisors and senior management referred to in items (i), (ii) or (iii) above;

(v) The directors, supervisors, general manager and other senior management of the controlled company referred to in item (iv) above.

The good faith obligation owed by the Directors, Supervisors, general manager and other senior management of our Company may not necessarily terminate upon the expiration of their terms of office; their obligations to keep the trade secrets of our Company in confidence shall survive upon the expiration of their terms of office. 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 our Company is terminated.

Liabilities of the Directors, Supervisors, general manager and other senior management of our Company arising from violation of specific duties may be released by the Shareholders at the general meeting on an informed basis, unless otherwise provided in the Articles of Association.

Apart from the obligations required by the relevant laws, administrative regulations or the listing rules of the stock exchange where the Shares of our Company are listed, the Directors, Supervisors, general manager and other senior management of our Company shall assume the following obligations to each of the Shareholders when exercising their authorities conferred by our Company:

(i) They may not cause our Company to operate beyond the scope of business indicated on our business license;

(ii) They shall act honestly in the best interests of our Company;

(iii) They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company;

(iv) They may not deprive the Shareholders of personal rights and interests, including, but not limited to, the distribution right and voting right, except for restructuring of our Company submitted to the general meeting for approval pursuant to the provisions of the Articles of Association.

Each of the Directors, Supervisors and senior management of Company owes a duty, in the exercise of his/her powers and discharge of his/her duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

2. MODIFICATION OF THE ARTICLES OF ASSOCIATION

Our Company may amend the Articles of Association based on the requirements of the relevant laws, administrative regulations and the Articles of Association.

Any amendment to the Articles of Association that involves the Mandatory Provisions shall be subject to approval by company approval authorities authorised by the State Council and the securities regulatory authorities of the State Council before taking into effect. Where the amendment involves the registration of our Company, the procedures for registration change shall be carried out in accordance with the law.

3. CHANGE IN RIGHTS OF EXISTING SHARES OR CLASS OF SHARES

Our Company shall not change or abolish any rights attached to any class of shares (the "**Class Right**"), unless approved by a special resolution and with the approval of a separate general meeting as convened by the affected class Shareholders in accordance with the Articles of Association. The rights of a class Shareholder shall be deemed as changed or abolished under any of the following circumstances:

(i) Increasing or reducing the number of such class of Shares, or increasing or reducing the number of such class of Shares with equal or more voting or distribution rights and other privileges than such class of Shares;

(ii) Converting all or part of class Shares into other types or converting all or part of another class of Shares into such class of Shares or granting such conversion right;

(iii) Cancelling or reducing rights to dividends generated or rights to cumulative dividends attached to such class of Shares;

(iv) Reducing or removing the right attached to such class of Shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;

(v) Increasing, cancelling or reducing share conversion rights, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of our Company attached to such class of Shares;

(vi) Cancelling or reducing rights to receive payment by our Company in specified currencies attached to such class of Shares;

(vii) Creating new class of Shares having voting or distribution rights, or other privileges equal or superior to those of such class of Shares;

(viii) Imposing restrictions on the transfer or ownership of such class of Shares or increase such restrictions;

(ix) Issuing subscription or conversion rights for such or other class of Shares;

(x) Increasing the rights and privileges of other class of Shares;

(xi) The reorganization plan of our Company may constitute assumption of responsibilities by different classes of Shareholders disproportionately in a reorganization; and

(xii) Amending or abolishing clauses stipulated in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at the general meeting, shall nevertheless have the right to vote at class meetings in respect of matters concerning items (ii) to (viii), (xi) and (xii) above, however the interested Shareholders (as defined below) shall not be entitled to vote at class meetings.

Resolution of a class meeting shall be passed by votes of more than two-thirds of Shareholders attending the relevant class meeting with voting rights at such meeting.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the class Shareholders in the share register of the matters to be considered at the meeting and the date and place of the class meeting. A Shareholder who intends to attend the class meeting shall deliver his/her written reply concerning attendance at the class meeting to our Company 20 days before the date of the class meeting.

If the number of Shares carrying voting rights at the class meeting represented by the Shareholders who intend to attend the class meeting reaches the majority of the aggregate Shares of such class carrying voting rights at the meeting, our Company may hold the class meeting; if not, our Company shall within five days notify the Shareholders of such class again by public notice, of the matters to be considered at the meeting and the date and place for the class meeting. Our Company may then convene the class meeting after publication of such notice. Notice of class meetings needs only to be served on Shareholders who are entitled to vote at the meetings.

Class meetings shall be conducted in procedures as similar as possible to those of general meetings. The provisions of our Articles of Association relating to the procedure for conducting general meeting shall apply to any class meeting.

Except for holders of other classes of Shares, holders of Domestic Shares and overseas listed foreign Shares are deemed to be Shareholders of different classes.

The special procedures for voting by class Shareholders shall not apply under the following circumstances:

(i) Upon the approval by a special resolution at the general meeting, our Company either separately or concurrently issues Domestic Shares and overseas listed foreign Shares every 12 months, and the number of Shares of each class to be issued shall not account for more than 20% of the outstanding Shares of such class;

(ii) The plan to issue Domestic Shares and overseas listed foreign Shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council;

(iii) Upon the approval by the State Council or the approval authority authorised by it, the Shares held by promoters are converted into foreign shares and become listed for trading on an overseas stock exchange.

For the purposes of the provisions relating to the rights of class Shares, "interested Shareholders" shall have the following meanings:

(i) If a repurchase offer is made to all Shareholders in the same proportion or Shares are repurchased on the Hong Kong Stock Exchange through open transaction, they shall mean the Controlling Shareholders as defined in the Articles of Association;

(ii) If Shares are repurchased by an agreement other than on the Hong Kong Stock Exchange, it shall me the Shareholders involved in the agreement;

(iii) Under a restructuring proposal of our Company, they shall mean shareholders who will bear liability in a proportion smaller than that of the liability borne by other shareholders of the same class, or shareholders who have an interest that is different from the interest of other shareholders of the same class.

4. SPECIAL RESOLUTIONS — REQUIRES MAJORITY VOTE

Resolutions of the general meetings are divided into ordinary resolutions and special resolutions.

Adoption of an ordinary resolution at a general meeting shall be subject to approval by the majority of votes represented by the Shareholders (including their proxies) attending the meeting.

Adoption of a special resolution at general meeting shall be subject to approval by more than two-thirds of votes represented by the Shareholders (including their proxies) attending the meeting.

5. VOTING RIGHTS (GENERALLY RELATING TO RIGHTS ON POLL OR RIGHTS TO DEMAND A POLL)

The ordinary Shareholders of our Company have the right to attend or appoint a proxy to attend and vote at the general meeting. A Shareholder (including a proxy) when voting at a general meeting may exercise voting rights in accordance with the number of Shares with voting power held on the basis of one vote for each share.

All votes at general meetings shall be conducted by poll. On a poll taken at a general meeting, a Shareholder (including a proxy) entitled to two or more votes needs not cast all of his/her votes in the same way.

If there is an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall have an additional and casting vote.

6. REQUIREMENTS ON GENERAL MEETINGS

General meetings are divided into annual general meetings and extraordinary general meetings. General meetings shall be convened by the Board. The annual general meeting shall be convened once a year and be held within six months of the end of the previous accounting period.

7. ACCOUNTING AND AUDIT

(a) Financial and accounting systems

Our Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and other requirements of relevant departments of the PRC.

The Board of our Company shall place before the Shareholders at every annual general meeting such financial reports which were prepared in accordance with the relevant laws, administrative regulations and directives promulgated by competent regional and central governmental authorities.

Apart from the Chinese accounting standards and regulations, the financial statements of our Company shall also conform to international accounting standards and the accounting standards of overseas areas where the our Company's Shares are listed. In the event of any major discrepancy between the financial statements prepared in accordance with the above accounting standards, explanations and notes, must be provided in the financial statements.

As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two sets of financial statements, whichever is lower shall prevail.

Our Company's financial reports shall be made available for Shareholders' inspection at our Company 20 days before the date of annual general meeting. Each Shareholder shall be entitled to have a copy of the financial reports.

Our Company shall deliver or send to each holder of Overseas Listed Foreign Shares by prepaid mail at the address registered in the register of Shareholders the said reports not later than 21 days before the date of every annual general meeting.

Any interim results or financial information published or disclosed by our Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the place overseas where our Company's Shares are listed.

Our Company published financial reports twice every fiscal year, i.e. publishing interim financial reports within 60 days at the end of the first 6 months of a fiscal year and publishing annual financial report within 120 days after the end of a fiscal year.

Our Company shall not keep accounts other than those required by law. Our Company's assets are not deposited in an account opened in the name of any individuals.

(b) Appointment and dismissal of accountants

Our Company shall appoint an independent accounting firm which is qualified under the relevant regulations of the State to audit our Company's annual financial report and review other financial reports of our Company.

Our Company's first accounting firm can be appointed at an inauguration assembly before the first annual general meeting, and the term of service of the firm will terminate at the end of the first annual general meeting.

The accounting firm appointed by our Company shall hold office from the conclusion of the annual general meeting at which they were appointed until the conclusion of the next annual general meeting.

The Shareholders in a general meeting may by ordinary resolution remove the accounting firm before the expiration of its term of office, irrespective of the provisions in the contract between our Company and the accounting firm. However, the right of the accounting firm in claiming for damages which arise from its removal shall not be affected thereby.

The emolument of an accounting firm or the manner in which such firm is to be remunerated shall be determined by the Shareholders in a general meeting.

Our Company's appointment, removal or non-reappointment of an accounting firm shall be resolved by the Shareholders in a general meeting. Such resolution shall be filed with the securities authority of the State Council.

Prior notice should be given to the accounting firm in advance if our Company decides to remove or not to renew appointment of such accounting firm. Such accounting firm shall be entitled to make representations at the general meeting.

Where the accounting firm resigns from its position, it shall make clear to the Shareholders in a general meeting whether there has been any impropriety on the part of our Company.

An accounting firm may resign its office by depositing at our Company's domicile a resignation notice. Such resignation notice shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

(i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the Shareholders or creditors of our Company; or

(ii) a statement of any such circumstances.

Where a notice is deposited under the foregoing paragraph, our Company shall within fourteen (14) days send a copy of the notice to the competent authority. If the notice contained a statement under the above paragraph (ii), our Company shall deposit a copy of such statement in our Company for examination by the Shareholders. Our Company shall also send a copy of such statement by postage pre-paid mail to each holders of Overseas Listed Foreign Shares. Where the accounting firm's notice of resignation contains a statement as referred in the above paragraph (ii), it may require the Board to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

8. NOTICE AND SCHEDULE OF THE GENERAL MEETING

The general meeting is the organ of authority of our Company and shall exercise its functions and powers in accordance with laws.

In addition to the situation that our Company is in crisis or other special circumstances, our Company shall not enter into any contract with any person other than a Director, Supervisor or senior management of our Company whereby the management and administration of the whole or any substantial part of any business of our Company is to be handed over to such a person without the prior approval of Shareholders by special resolution in a general meeting.

General meetings can be divided to annual general meetings or extraordinary general meetings. The Board shall convene an extraordinary general meeting within two months after the occurrence of any one of the following circumstances:

(i) Where the number of Directors is less than the number stipulated in the Company Law or is no more than two-thirds of the number required by the Articles of Association;

(ii) Where the accrued losses of our Company amount to one-third of its total share capital;

(iii) Where Shareholders holding 10% or more of our Company's issued Shares make a request in writing to convene an extraordinary general meeting;

(iv) Where the Board considers it necessary or the Supervisory Committee proposes to call for such a meeting;

(v) When proposed by more than two independent Directors;

(vi) Other circumstances stipulated by laws, administrative regulations, departmental rules and regulations, local listing rules of securities exchanges where our Company's Shares are listed or the Articles of Association.

When convening a general meeting, our Company shall send a written notice to inform all registered Shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened. Shareholders planning to attend shall send to our Company a written reply to that effect 20 days before the meeting is held.

At our Company's general meeting, the Shareholders individually or jointly holding 3% or more Shares with voting power are entitled to submit new written proposals to our Company.

Our Company shall calculate the number of Shares with voting power represented by the Shareholders planning to attend the 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, our Company may convene the general meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the general meeting may be convened. The extraordinary general meeting shall not resolve on matters that have not been clearly stated in the notice as mentioned in the preceding paragraph.

The notice of the general meeting shall be in writing form and including the following:

(i) Specified time, venue and duration of the meeting;

(ii) Specified matters to be deliberated at the meeting;

(iii) Provision to the Shareholders of materials and explanations necessary for the Shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed conditions and contract(s), if any, of the proposed transaction(s) and proper explanations about related causes and effects when our Company proposes merger(s), redemption of Shares, restructuring of stock capital or other restructuring;

(iv) In the event that any of the Directors, Supervisors or senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor or senior management as a Shareholder in a manner different from how they affect other Shareholders of the same type, the difference shall be explained;

(v) Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;

(vi) A clear explanation that the Shareholder is entitled to attend and vote at the general meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his/her behalf and that such may not necessarily be Shareholders;

(vii) Specified delivery time and place of the power of attorney for proxy voting of the meeting;

(viii) The notice of the general meeting shall be sent in person or by postage-paid mail, to the Shareholders regardless of whether such Shareholders have the right to vote at the general meeting, 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 general meeting shall be given in the form of an announcement.

The notice of the general meeting shall be published in one or more newspapers designated by the securities regulatory agency of the State Council 45 to 50 days prior to the meeting. All holders of Domestic Shares shall be deemed to have received the notice of general meeting upon the publication of the announcement. The notices served to holders of Overseas Listed Foreign Shares may be published on the Hong Kong Stock Exchange's website or in one or more newspapers designated by it. All holders of Overseas Listed Foreign Shares shall be deemed to have received the notice of general meeting upon the publication of the announcement.

Shareholders who request an extraordinary general meeting or a general meeting of a class of Shareholders shall comply with the following procedures:

(i) Two or more Shareholders who individually or collectively hold 10% or more of the Shares carrying voting rights on the proposed general meeting can request the Board to convene an extraordinary general meeting or a class meeting by signing one or several copies of written request(s) in the same form and content, and stating the motions proposed. The Board shall convene the extraordinary general meeting or the class meeting as soon as practicably upon receipt of the foresaid written requirement. The number of shareholdings referred to above shall be calculated as at the date of request made.

(ii) If the Board fails to issue a notice of such a meeting within 30 days upon receipt of the aforesaid requisition(s), the shareholders calling for the meeting may convene the meeting themselves within four months after the Board has received the requisition. The procedures for convening the meeting shall be the same, to the extent possible, as the procedures for a general meeting convened by the Board.

If the Shareholders call and convene a meeting by themselves since the Board cannot convene a meeting in accordance with the foresaid requirement, the expenses reasonably resulted therefrom shall be borne by our Company and be deducted from the amounts due to the defaulting Directors.

The following matters shall be adopted by the general meeting through ordinary resolutions:

(i) Work reports of the Board and the Supervisory Committee;

(ii) Plans formulated by the Board for the distribution of profits and for making up losses;

(iii) Appointment or removal of members of the Board and Supervisory Committee (except for the employee representative Supervisors), and their remuneration and manner of payment thereof;

(iv) Annual preliminary and final budgets, balance sheets, income and other financial statements of our Company;

(v) Matters other than those required by the laws, administrative regulations or the Articles of Association to be approved by special resolutions.

The following matters shall be resolved by a special resolution at the general meeting:

(i) The increase or decrease in our Company's share capital, and issue of Shares of any class, warrants and other similar securities;

(ii) The issue of debentures of our Company;

(iii) Division, merger, dissolution and liquidation of our Company;

(iv) Change in the form of our Company;

(v) Any material acquisition or disposal of assets by our Company or the guarantee within one year the amount of which shall exceed 30% of our Company's total audited assets for the latest financial period;

(vi) Amendments to the Articles of Association;

(vii) Share incentive plans to be considered and implemented;

(viii) Any other matters as required by applicable laws, administrative regulations and the Articles of Association or as decided by the general meeting by way of an ordinary resolution, to be of a nature which may have a material impact on our Company and should be adopted by a special resolution;

(ix) Any other matters as required by the Listing Rules of the Hong Kong Stock Exchange to be passed by way of a special resolution.

9. TRANSFER OF SHARES

Subject to the approval of the securities authority of the State Council, the Shares may be converted, listed or traded on an overseas stock exchange. Any conversion, listing or trading of the Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

The Shares held by the promoters may not be transferred within one (1) year of our incorporation.

The Directors, Supervisors and senior management shall report to our Company the number of Shares held by them as well as any changes in their Shareholdings. The number of Shares which a Director, Supervisor or senior management may transfer each year during his/her term of office may not exceed 25% of the total number of the Shares owned by them. The above personnel may not transfer the Shares held by them within six months after resignation.

All fully paid up Overseas Listed Foreign Shares listed in Hong Kong may be transferred freely pursuant to the Articles of Association. However, unless the Overseas Listed Foreign Shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognise any transfer document without giving any reason:

(i) Any transfer documents and files related to stock ownership or may affect stock ownership are required registration, and one shall pay our Company registration fee of HK$2.5 for each transfer document, or the higher cost determined by the Board, but such fees shall not exceed the maximum fees prescribed in Listing Rules of the Hong Kong Stock Exchange on occasion;

(ii) The instrument of transfer relates only to Overseas Listed Foreign Shares listed in Hong Kong;

(iii) Payment in full of any stamp duty due on the instrument of transfer;

(iv) Provision of the relevant share certificates and any other evidence reasonably required by the Board to prove the transferor's right to make the transfer;

(v) If the Shares are to be transferred to joint holders, the number of joint holders shall not exceed four;

(vi) The relevant Shares of our Company are free from all liens.

If our Company refuses to register a transfer of any share, it shall, within two months after the date on which the formal application for transfer was lodged with our Company, send to the transferor and the transferee a notice of refusal to register the transfer of such share.

Any change or correction in each part of the register of Shareholders, shall, according to the laws and regulations of the city where the part of the register of Shareholders is kept.

Changes from Shares transfer may not be entered in the register of Shareholders thirty (30) days prior to the date of a general meeting or 5 days ahead the record date set for the purpose of distribution of dividends.

10. OUR COMPANY'S RIGHT TO PURCHASE ITS OWN SHARES

Our Company may, subject to the requirements of relevant laws, administrative regulations, the Listing Rules and the Articles of Association, and with the approval of the relevant governing authority of the State, repurchase its Shares under the following circumstances:

(i) Cancellation of Shares for the purposes of reducing the capital of our Company;

(ii) Merging with another company that holds Shares in our Company;

(iii) Awarding of Shares to the employees of our Company;

(iv) Objection of its Shareholders against the resolutions in relation to our Company's merger and division made at the general meeting and their request of acquisition of its Shares; or

(v) Other circumstances permitted by laws and administrative regulations.

The Shares repurchased by our Company according to clause (i), (ii) and (iv) of the preceding paragraph shall be cancelled or transferred within the period prescribed by the law and administrative regulations. As regards the cancelled Shares, our Company shall apply to the original company registration authority to register the change in registered capital and make an announcement accordingly. The Shares repurchased by our Company according to clause (iii) of the preceding paragraph shall not exceed 5% of its total issued Shares; the money used to acquire the Shares shall be paid from its profit after tax; and its acquired Shares shall be assigned to its employees within one year.

Our Company may repurchase Shares in one of the following ways, with the approval of the relevant governing authority of the State:

(i) By making an offer for the repurchase of Shares to all its Shareholders on a pro rata basis;

(ii) By repurchasing Shares through public dealing on a stock exchange;

(iii) By repurchasing Shares outside of the stock exchange by means of an off-market agreement.

Our Company must obtain the prior approval of the Shareholders in a general meeting before it can repurchase Shares outside the stock exchange by means of an off-market agreement. Our Company may, by obtaining the prior approval of the Shareholders in a general meeting (in the same manner), rescind or vary any contract which has been so entered into or waive any right thereof. A contract for the repurchase of Shares referred to in the preceding paragraph includes (but not limited to) an agreement to become liable to repurchase Shares or an agreement to have the right to repurchase Shares.

Our Company shall not assign any contract for the repurchase of its Shares or any right contained in such agreement. Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its outstanding Shares:

(i) Where our Company repurchases Shares at par value, payment shall be made out of the book surplus on the distributable profits of our Company or out of the proceeds of the new issue of Shares made for that purpose;

(ii) Where our Company repurchases Shares at a premium to its par value, payment equivalent to the par value may be made out of the book surplus on the distributable profits of our Company or out of the proceeds of the new issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:

    (a) If our Shares being repurchased were issued at par value, payment shall be made out of the book surplus on the distributable profits of our Company;

    (b) If our Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus on the distributable profits of our Company or out of the proceeds of the new issue of Shares made for that purpose, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate amount of premiums received by our Company on the issue of the Shares repurchased nor shall it exceed the book value of our Company's premium account or capital reserve fund account (inclusive of the premiums from the new issue) at the time of the repurchase;

(iii) Our Company shall make the following payments out of our Company's distributable profits:

(a) Payment for the acquisition of the rights to repurchase our own Shares;

(b) Payment for the variation of any contract to repurchase our own Shares;

(c) Payment for the release of its obligation under any repurchase contract.

(iv) After our Company's registered capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount reduced from the distributable profits for payment of the par value of Shares which have been repurchased shall be transferred to our Company's premium account or capital reserve fund account.

Where our Company has the rights to repurchase redeemable Shares: in case of a repurchase made other than through market or by tender, the price of which shall be limited at a maximum price; in case of a repurchase by tender, the tenders shall be made available to all Shareholders. Our Company shall not assign a contract to repurchase the Shares or any of the rights thereunder.

11. THERE ARE NO PROVISIONS IN THE ARTICLES OF ASSOCIATION PREVENTING OWNERSHIP OF SHARES IN OUR COMPANY BY A SUBSIDIARY.

12. DIVIDEND AND OTHER METHODS OF DISTRIBUTION

Dividends shall be distributed by our Company in cash or share certificate.

The Shareholders are entitled to interest on the monies paid for any Shares before share capital is called for, simply their advances on subscription of Shares are not entitled to participate in the dividends subsequently declared.

Our Company shall appoint recipient agents for holders of Overseas Listed Foreign Shares to collect on behalf of the relevant Shareholders the dividends distributed and other funds payable in respect of Overseas Listed Foreign Shares by our Company, and to keep those monies for later payment to the related Shareholders.

The receiving agent appointed by our Company on behalf of holders of Overseas Listed Foreign Shares listed in the Hong Kong Stock Exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

The cash dividends and other amounts payable by our Company to the holders of Domestic Shares shall be paid in Renminbi. The cash dividends and other amounts payable by our Company to the holders of Overseas Listed Foreign Shares shall be denominated and declared in Renminbi and paid in Hong Kong dollars. The foreign currency required for the payment of cash dividends and other amounts by our Company to the holders of Overseas Listed Foreign Shares shall be arranged in accordance with the provisions of the PRC in relation to foreign exchange administration.

13. PROXIES OF SHAREHOLDERS

Any Shareholder entitled to attend and vote at a general meeting of our Company shall be entitled to appoint one or more persons (who need not be a Shareholder or Shareholders) as his/her proxies to attend general meetings and vote instead of him. A proxy so appointed shall enjoy the following rights pursuant to authorization by that Shareholder:

(i) The Shareholders' right to speak at the general meeting;

(ii) The right to demand or join in demanding a poll;

(iii) The right to vote by hand or on a poll, but a proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.

The appointment of a proxy by a Shareholder shall be in writing and signed by the appointer or his/her attorney duly authorised in written, or in the case of a legal person, shall be either affixed with its legal person seal or signed by a Director or a duly authorised attorney. The instrument appointing a proxy shall be deposited at our Company's domicile or at some other place specified for that purpose in the notice of meeting no later than 24 hours prior to the meeting at which the proxy is authorised to vote or 24 hours before the time specified for the voting. Where such an instrument is signed by a person under power of attorney on behalf of the appointor, that power of attorney or other authorization documents shall be notarially certified. The notarially certified power of attorney and other authorization documents shall, together with the instrument appointing the proxy, be deposited at our Company's domicile or at some other place specified for that purpose in the notice of meeting.

If the appointor is a legal person, its legal representative or a person appointed by its Board or other decision-making body shall be entitled to attend a general meeting of our Company on behalf of the appointor as its proxy.

Any form issued to a Shareholder by the Board for use by him for appointing a proxy to attend and vote at a general meeting of our Company shall be such as to enable the Shareholder, according to his/her intention, to instruct the proxy to vote in favor of or against each resolution dealing with business to be transacted at the meeting. Such a form should contain a statement that in default of instructions the proxy may vote as he/she thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer shall have been received by our Company before the commencement of the meeting at which the proxy is used.

14. CAPITAL CALLS AND CONFISCATION OF SHARES

Any amount paid upon any Shares before a call is made shall bear interest thereon.

However, the Shareholder is not entitled to any dividends of such pre-paid share capital declared subsequently.

Under the premise in pursuant to relevant PRC laws and regulations, our Company may exercise the right to forfeit unclaimed dividends, but that power shall not be exercised until or after 6 years from the declaration of dividend distribution.

15. INSPECTING THE REGISTER AND OTHER RIGHTS OF THE SHAREHOLDERS

Our Company shall keep a register of Shareholders.

Our Company may, in accordance with the mutual understanding and agreements made between the securities regulatory authorities of the State Council and overseas securities regulatory organizations maintain the original register of holders of Overseas Listed Foreign Shares overseas and appoint overseas agents to manage such register of Shareholders.

The original register of holders of Overseas Listed Foreign Shares listed in Hong Kong shall be kept in Hong Kong. A duplicate register of Shareholders for the holders of Overseas Listed Foreign Shares shall be maintained at our Company's domicile. The appointed overseas agents shall ensure consistency between the original and the duplicate register of holders of Overseas Listed Foreign Shares at all times.

If there is any inconsistency between the original and the duplicate register of Shareholders for the holders of Overseas Listed Foreign Shares, the original register of Shareholders shall prevail.

Our Company shall have a complete register of Shareholders.

The register of Shareholders shall include:

(i) The register of Shareholders maintained at our Company's domicile (other than those described in items (ii) and (iii) below);

(ii) The register of holders of Overseas Listed Foreign Shares of our Company maintained at the place where the overseas securities exchange on which the Shares are listed is located; and

(iii) The register of Shareholders maintained at such other place as our Board may consider necessary for the purpose of listing of our Shares.

Different parts of the register of Shareholders shall not overlap with one another. No transfer of the Shares registered in any part of the register shall, during the existence of that registration, be registered in any other part of the register of Shareholders. Alteration or rectification of each part of the register of Shareholders shall be made in accordance with the laws of the place where that part of the register of Shareholders is maintained.

Transfers may not be entered in the register of Shareholders within 30 days prior to the date of a general meeting or within 5 days before the record date set by our Company for the purpose of distribution of dividends.

When our Company intends to convene a general meeting, distribute dividends, liquidate and engage in other activities that involve determination of shareholdings, the Board shall designate a day to be the record day. Shareholders whose names appear in the register of Shareholders at the end of the record date are Shareholders of our Company.

Any person who objects to the register of Shareholders and requests to have his/her name (title) entered in or removed from the register of Shareholders may apply to a court of competent jurisdiction for rectification of the register.

Shareholders shall have the right to obtain relevant information, including, but no limited to:

(i) the right to obtain a copy of the Articles of Association, subject to payment of costs;

(ii) the right to inspect and copy, subject to payment of a reasonable fee:

   (a) all parts of the register of Shareholders;

   (b) Personal particulars of each of our Company's Directors, Supervisors, general manager and other senior management;

(iii) our Company's equity position;

(iv) since the prior financial year, the par value of each class of Shares repurchased by our Company, its quantity, the highest price and lowest price, and the report of all cost paid by our Company;

(v) minutes of the general meetings; resolutions of the general meetings; resolutions of the Board meetings; and resolutions of the meetings of the Supervisory Committee;

(vi) counterfoils of our Company's bonds;

(vii) the latest audited financial report, the report of the Board, auditor's report and the report of the Supervisory Committee; and

(viii) copy of the latest annual report filed with the administration for industry and commerce or other authorities of the PRC.

Our Company shall make the above documents available at our Company's domicile and place of business in Hong Kong for inspection by shareholders.

16. QUORUM OF GENERAL MEETINGS

If the number of Shares carrying voting rights represented by the Shareholders intending to attend a meeting exceeds one half of the total number of Shares carrying voting rights, our Company may convene the general meeting.

If the number of a class of Shares carrying voting rights represented by the Shareholders intending to attend a meeting exceeds one half of the total number of such class of Shares carrying voting rights, our Company may convene the class meeting.

17. MINORITY SHAREHOLDERS' RIGHTS IN CASE OF A FRAUD OR OPPRESSION

In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which our Company's Shares are listed, a Controlling Shareholder shall not exercise his/her voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the Shareholders of our Company:

(i) to remove the responsibilities of a Director or Supervisor to act honestly in the best interests of our Company;

(ii) to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any guise, of our Company's assets, including (but not limited to) opportunities beneficial to our Company; or

(iii) to approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the individual rights of other Shareholders, including (but not limited to) distribution rights and voting rights, save for the restructuring of our Company submitted to the general meeting for approval in accordance with the Articles of Association.

18. PROCESS OF DISSOLUTION AND LIQUIDATION

Our Company will be dissolved for the following reasons:

(i) a resolution for dissolution is passed by Shareholders at a general meeting;

(ii) dissolution is necessary due to a merger or division of our Company;

(iii) our Company's business license is cancelled or it is ordered to shut down or to be dissolved according to the laws;

(iv) our Company is ordered to dissolve due to its violation of laws and regulations; and

(v) where our Company encounters significant difficulties in business and management, continuous survival will be significantly detrimental to the interests of 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 a People's court to dissolve our Company.

Where our Company is to be dissolved pursuant to items (i), (iii) or (v) of the preceding Article, the liquidation committee shall be formed within 15 days from the occurrence of dissolution to commence liquidation. The composition of such liquidation committee shall be determined by the Directors or the general meeting. If no liquidation committee is formed within the time limit, the creditors may petition to the People's Court to appoint relevant parties to form a liquidation committee to conduct the liquidation.

If the Board decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board shall state in the notice of the general meeting convened for this purpose that the Board has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

Upon the passing of the resolution by Shareholders in the general meeting for the liquidation of our Company, all duties and powers of the Board shall terminate immediately.

The liquidation committee shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the committee's income and expenses, the businesses of our Company and the progress of the liquidation and to present a final report to the general meeting on the completion of the liquidation.

The liquidation committee shall notify all creditors within 10 days after its establishment and shall make announcements in newspapers within 60 days.

In claiming their rights, the creditors shall provide a statement and evidence with respect thereof. The liquidation committee shall register creditor's rights.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

(i) to categorise our Company's assets and prepare a balance sheet and an inventory of assets respectively;

(ii) to notify the creditors or to publish public announcements;

(iii) to dispose of and liquidate any pending businesses of our Company;

(iv) to pay outstanding taxes and the taxes arising during the process of liquidation;

(v) to settle claims and debts;

(vi) to deal with the surplus assets remaining after repayment by our Company of debts; and

(vii) to represent our Company in any civil proceedings.

After it has categorised our Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a general meeting or to the relevant competent authority for confirmation.

The liquidation committee shall immediately apply to the people's court for a declaration of bankruptcy if it becomes aware, having liquidated our Company's assets and prepared a balance sheet and an inventory of assets, that our Company's assets are insufficient to repay its debts in full. Upon our Company being declared bankrupt by a ruling of the people's court, the liquidation committee shall transfer to the people's court all matters arising out of the liquidation.

Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese certified public accountant and submitted to the general meeting or the relevant competent authority for confirmation. The liquidation committee shall, within 30 days after the confirmation by the general meeting or the relevant competent authority, submit the documents referred to in the preceding paragraph to the registration authority and apply for cancellation of registration of our Company, and publish a public announcement relating to the termination of our Company.

19. OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS

(a) General provisions

Our Company is a permanently existing joint stock limited company.

Our Company may invest in other limited liability companies and joint stock limited companies, and its responsibility to such companies shall be limited to its invested amount.

Our Company shall not bear several and joint liabilities for the debts of the companies invested, except as otherwise specified by laws.

The Article of Association constitute a legal document regulating the relationship between our Company and each of its Shareholders and among the Shareholders interest, actionable by a Shareholder against our Company and vice versa and by Shareholders against each other in respect of rights and obligations concerning the affairs of our Company arising out of the Articles of Association. The Shareholders may also bring actions against the Directors, Supervisors, general manager and other senior management of our Company. For the purposes of the Articles of Association, actions include court proceedings and arbitration proceedings.

(b) Shares and transfers

Foreign investors referred to in the Article of Association mean those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for Shares issued by our Company; domestic investors referred to in the preceding paragraph mean those investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for Shares issued by our Company.

Our Company may increase stock capital by the following means:

(i) to offer new Shares to unspecified investors;

(ii) to place new Shares with existing Shareholders;

(iii) to allot bonus Shares to its existing Shareholders;

(iv) to issue new Shares to particular investors;

(v) to convert the reserves into share capital; or

(vi) any other ways permitted by the laws, administrative regulations and relevant regulatory authorities.

Our Company's increase of capital by issuing new Shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

Our Company may reduce its registered capital in accordance with the provisions of the Company Law, other regulations and the Articles of Association.

When our Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets.

Subject to the approval of the securities authority of the State Council, the Shares may be converted, listed or traded on an overseas stock exchange. Any conversion, listing or trading of the Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

(c) Shareholders

A Shareholder of our Company is a person who lawfully holds Shares and has his/her name (titles) recorded on the register of Shareholders.

A Shareholder enjoys rights, and is subject to obligations, according to the class and number of Shares he/she holds. Holders of the same class of Shares enjoy the same rights and subject to the same obligations.

The ordinary Shareholder of our Company shall enjoy the following rights:

(i) to receive dividends and other distributions in proportion to the number of Shares held;

(ii) to legally request, convene, chair, attend or appoint a proxy to attend the general meetings and to exercise the voting right thereat;

(iii) to supervise and manage our business and operational activities, provide suggestions or submit queries;

(iv) to transfer, giving for free or making liens of Shares in accordance with the laws, administrative regulations and the Articles of Association;

(v) to obtain relevant information in accordance with the provisions of the Articles of Association;

(vi) to participate in the distribution of the remaining assets of our Company in proportion to the number of Shares held upon our termination or liquidation;

(vii) to require our Company to buy back Shares when holding qualifications toward resolutions in respect of mergers or separation;

(viii) to entitle Shareholders holding, individually or in aggregate, more than 3% of Shares of our Company to propose additional resolution in writing to the Board 10 days before the general meeting; and

(ix) other rights conferred by laws, administrative regulations, departmental rules and the Articles of Association.

Our Company shall not freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to our Company.

Share certificates of our Company shall be in registered form.

Share certificates of our Company shall be signed by the Chairman of the Board of our Company. Where the stock exchanges on which Shares are listed require the share certificates to be signed by senior management of our Company, the share certificates shall also be signed by such senior management. The share certificates shall take effect after being affixed with our Company's seal or a machine-imprinted seal of our Company provided that such seal shall only be affixed with the authority of the Board. The signatures of the Chairman of the Board or other senior management of our Company on the Share certificates may be printed in mechanical form.

Any person who is registered Shareholder or who requests to have his/her name (title) entered into the register of Shareholders may, if his/her share certificate (the "**original certificate**") in respect of shares in our Company is lost, apply to our Company for a replacement new share certificate in respect of such shares (the "**Relevant Shares**").

If a holder of Domestic Shares loses his/her share certificate and applies for a replacement new share certificate, it shall be dealt with in accordance with relevant provisions of the Company Law. If a Shareholder of Foreign Shares listed in Hong Kong loses his/her share certificate and applies for a replacement new share certificate, the issue of such certificate shall comply with the following requirements:

(i) The applicant shall submit an application to our Company in the form prescribed by our Company accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss of the original certificate and declaring that no other person is entitled to be registered as a Shareholder in respect of the Relevant Shares.

(ii) Before our Company decides to issue the replacement new share certificate, no statement made by any person other than the applicant declaring that he shall be registered as a Shareholder in respect of the Relevant Shares has been received.

(iii) Our Company shall, if it decides to issue a replacement new share certificate to the applicant, make an announcement of its decision at least once every 30 days for a period of 90 days in such newspapers as may be designated by the Board. The newspaper designated by the Board should be a Chinese and an English newspaper (at least one of each) recognised by the Hong Kong Stock Exchange.

(iv) Before our Company publishes the announcement of the reissuance of a share certificate, a copy of the announcement intended to be published shall be submitted to the Hong Kong Stock Exchange. Upon the receipt of response from such stock exchange that confirms that such announcement has been exhibited in the premises of the Hong Kong Stock Exchange, the announcement may be published. Such announcement shall be exhibited in the premises of the Hong Kong Stock Exchange for a period of 90 days. If the application for the replacement of share certificate is made without the consent of the registered holder of the Relevant Shares, our Company shall deliver a copy of the announcement intended to be published to such Shareholder by post.

(v) If, by the expiration of the 90-day period referred to in above (iii) and (iv), our Company shall not have received from any person notice of any disagreement to such application, our Company may issue a replacement new share certificate to the applicant accordingly.

(vi) Where our Company issues a replacement new share certificate under the Articles of Association, it shall forthwith cancel the original share certificate and enter the cancellation and replacement issue in the register of Shareholders accordingly.

(vii) All expenses relating to the cancellation of an original share certificate and the issue of a replacement new share certificate by our Company shall be borne by the applicant. Our Company may refuse to take any action until reasonable security is provided by the applicant for such expenses.

(d) Shareholders untraceable

Our Company may exercise power to cease sending dividend warrants by post to a holder of foreign shares listed overseas when such warrants have not been cashed twice in a row.

However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

Our Company is entitled to sell, in such manner as the Board thinks fit, any shares of a holder of foreign shares listed overseas who is untraceable, subject to and conditional upon:

(i) During a period of 12 years at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed; and

(ii) Our Company shall, upon the expiry of the 12 years, give notice of its intention to sell the shares by way of an advertisement published in the newspapers and notifies the Hong Kong Stock Exchange of such intention.

(e) The Board

The Board shall exercise the following functions and powers:

(i) To convene the general meeting and report on its work to the Shareholders;

(ii) To implement the resolutions of the general meeting;

(iii) To decide on our Company's business plans, investment plans, detailed annual business objectives, and financing plans other than by ways of issue of corporate bonds or other securities and of listing;

(iv) To formulate our Company's proposed annual financial budget and final accounts;

(v) To formulate our Company's profit distribution plan and plan for making up for losses;

(vi) To formulate proposals for the increase or reduction of our Company's registered capital, and plans for the issue of corporate bonds or other securities and the listing plan;

(vii) To draw up plans for material assets acquisition or disposal, purchase of our Company's shares, or merger, demerger, dissolution or change of the form of our Company;

(viii) To decide on the establishment of our Company's internal management organization;

(ix) To appoint or remove our Company's general manager and secretary of the Board; to appoint or remove other senior management pursuant to the general manager's nominations, and to determine the abovementioned matters relating to the remuneration, incentives and punishments of the senior management;

(x) To decide on the proposals for salaries, incentives and punishments of our Company's staff;

(xi) To approve the appointment or replacement of Directors and Supervisors representing Shareholders of our Company's wholly-owned subsidiaries, appointment, replacement or recommendation of Shareholder representatives, Directors (candidates) and Supervisors representing Shareholders of our Company's subsidiaries and investees;

(xii) To formulate our Company's basic management system;

(xiii) To propose plans for the amendment to the Articles of Association of our Company;

(xiv) To determine the establishment of our Company's domestic or overseas branches;

(xv) To decide on the matters such as merger, division, reorganization or dissolution of our Company's wholly-owned subsidiaries and subsidiaries;

(xvi) To decide on the establishment of special committees under the Board and to appoint or remove its person-in-charge;

(xvii) To propose at the general meetings a resolution in respect of candidates for independent Directors and replacement of independent Directors;

(xviii) To propose at the general meetings for the appointment, renewal or remove of accountants' firm conducting auditing for our Company;

(xix) To hear the work report and inspect the work of the general manager;

(xx) To manage information disclosure of our Company;

(xxi) To formulate the equity incentives plan;

(xxii) Save as otherwise required to be decided by the general meetings under laws and regulations and the Articles of Association, the Board exercises its power to make decisions on external investments (including capital increase and equity transfer of the invested enterprises), financing, risk management and trust management, external guarantees, etc.;

(xxiii) To establish and review our Company's corporate governance policies and codes;

(xxiv) To review and supervise the training and sustained professional development of our Company's Directors, Supervisors and senior management;

(xxv) To review and supervise our Company's policies and codes in connection with compliance with laws and regulatory requirements;

(xxvi) To establish, review and supervise the codes of conduct and compliance handbook (if any) applicable to Directors and employees;

(xxvii) To review our Company's compliance with the Code on Corporate Governance Practices and the disclosures made in the Corporate Governance Report;

(xxviii) To decide on other major affairs of our Company, save for matters to be resolved at the general meetings as required by the Company Law and the Articles of Association;

(xxix) To exercise other functions and powers as granted by the Articles of Association or the general meetings of our Company;

(xxx) To conduct other matters as required by PRC laws and regulations.

Except for the matters specified in items (vi), (vii) and (xiii) which shall be passed by two-thirds or more of the Directors, the resolutions of the Board in respect of any other aforesaid matters may be passed by half or more of all Directors. Resolutions in respect of connected transactions made by the Board shall not come into force unless it is signed by independent Directors.

Board meetings shall be held regularly at least four times in each year and shall be convened by the Chairman of the Board.

If a Director is unable to attend a Board Meeting, he/she may appoint another Director by a written power of attorney to attend on his/her behalf. Such a power of attorney shall specify the scope of authorization.

Directors attending Board meetings shall exercise their powers as Directors within their scope of authorization. If a Director fails to attend a Board Meeting and does not appoint an attorney to attend, the Director is deemed to have relinquished his/her rights to vote at that meeting.

Each Director shall have one vote. Unless specified otherwise in the laws, administrative regulations or the Articles of Association, resolutions of the Board must be passed by more than half of all the Directors. Where the number of votes cast for and against a resolution is equal, the Chairman shall have the right to cast an additional vote.

(f) Independent Directors

Our Company shall establish a Board. The Board shall comprise 7 Directors, including 3 independent Directors. Independent directors may report the relevant state of affairs directly to the Shareholders' general meeting, the securities regulatory authorities of the State Council and other relevant departments.

(g) Secretary of the Board

Our Company shall have a secretary of the Board. The secretary of the Board is a member of the senior management of our Company. The secretary of the Board of our Company shall be a natural person with the requisite professional knowledge and experience, and shall be nominated by the chairman and appointed or removed by the Board.

(h) Supervisory Committee

Our Company shall have a Supervisory committee.

The Supervisory Committee shall be composed of three members, including one representative appointed by our Shareholders and two representatives elected by our employees, one of these three Supervisors shall be the chairman of the Supervisory Committee.

The election or removal of the chairman of the Supervisory Committee shall be decided by two-thirds or more of the Supervisors. Decisions of the Supervisory Committee shall be made by the affirmative vote of two-thirds or more of the Supervisors.

The terms of office of Supervisors shall be three years, renewable upon re-election.

Directors and other senior management of our Company shall not concurrently act as Supervisors. The Supervisory Committee shall be responsible for the general meetings and exercise the following functions and powers:

(i) To supervise the Directors and other senior management if they violate the laws, administrative regulations or the Articles of Association in the execution of their duties, and to propose removal of any Directors and senior management who violate the laws, administrative regulations, the Articles of Association of our Company or any resolutions passed at the general meetings;

(ii) To demand rectification from a Director and other senior management when the acts of such persons prejudice our Company's interest;

(iii) To examine our Company's financial accounts;

(iv) To propose to convene an extraordinary general meeting and to convene and preside over the general meetings when the Board fails to perform its duties of convening and presiding over the general meetings under the Company Law;

(v) To put forth proposals at the general meetings;

(vi) To propose to convene an extraordinary Board meeting;

(vii) To bring an action against a Director and senior management in accordance with Article 151 of the Company Law;

(viii) To exercise other functions and powers specified in the laws, administrative regulations and the Articles of Association.

Supervisors shall be present at Board meetings.

(i) General manager

The Company shall have one general manager, who shall be appointed and removed by the Board. The general manager shall be accountable to the Board and exercise the following functions and powers:

(i) To lead the production, operation and management of our Company, and report his/her works to the Board;

(ii) To organise the implementation of the resolutions of the Board, our Company's annual business plans and investment plans;

(iii) To prepare the Company's annual budgets and final accounts, and to provide recommendations to the Board;

(iv) To prepare plans for the establishment of our Company's basic management system and the internal management structure;

(v) To formulate the specific rules and regulations of our Company;

(vi) To propose to the Board on the appointment or removal of other senior management of our Company;

(vii) To appoint or remove the management personnel, except for those who shall be appointed or removed by the Board;

(viii) To propose to convene an extraordinary Board Meeting in case of emergency;

(ix) To decide on investment, financing, contracts and transactions of our Company within the scope of authorization of the Board;

(x) To exercise other functions and powers conferred by the Articles of Association and the Board.

(j) Reserves

When distributing the after-tax profits of the current year, our Company shall allocate 10% of its profits into its statutory reserve. When the cumulated amount of the statutory reserve of our Company has reached 50% or more of its registered capital, no further allocations is required.

Where the statutory reserve of our Company is insufficient to make up for the losses of our Company incurred during the previous years, before making allocation to the statutory reserve in accordance with the preceding paragraph, the profits generated during the current year shall be used to make up for such losses.

After allocation of statutory reserve fund from its after-tax profits, our Company may also make appropriations to its discretionary reserve fund from such remaining profits by resolutions of the general meetings.

The remaining after-tax profits after being used to make up for losses and allocated to reserve are available for distribution by our Company to its Shareholders in proportion of their shareholdings in accordance with the resolution of the general meetings.

If the Shareholders' general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the Shareholders before our Company has made up for its losses and made allocations to the statutory reserve, the Shareholders must return the profits distributed in violation of the provision to our Company.

No profits shall be distributed in respect of the shares held by our Company.

(k) Settlement of disputes

Our Company shall adopt the following rules in dispute resolution:

(i) Any dispute or claim of rights relating to the affairs of our Company and arising between holders of Overseas Listed Foreign Shares and our Company, or between holders of Overseas Listed Foreign Shares and Directors, Supervisors or any other senior management of our Company, or between holders of Overseas Listed Foreign Shares and holders of Domestic Shares, and arising as a result of the rights and obligations provided for in the Articles of Association, the Company Law, and relevant laws and administrative regulations, shall be referred to arbitration by the parties involved.

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, where the persons being our Company or the Shareholders, directors, Supervisors or any other senior management of our Company, shall comply with the arbitration.

Disputes in respect of the definition of Shareholders and disputes in relation to the register of members need not be resolved by arbitration.

(ii) A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Center in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party may request the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Center.

(iii) The resolution of any dispute or claim of rights referred to in paragraph (i) above by arbitration is subject to the laws of the PRC (excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan), unless otherwise required by laws and administrative regulations.

(iv) An arbitral award made by the arbitral body is final and binding on the parties.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

The Company was established on December 23, 2010 as a joint stock company in the PRC with limited liability. The principal place of business of the Company is located in No. 7 Wastewater Treatment Plant, Kunming Dianchi National Tourist Resort, Yunnan Province, the PRC. We have established a place of business in Hong Kong at 19/F, Lee Garden One, 33 Hysan Avenue Causeway Bay, Hong Kong and registered as a non-Hong Kong company in Hong Kong on April 19, 2016 under Part 16 of the Companies Ordinance. Mr. Chiu Ming King (趙明璟) has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong.

As our Company was established in the PRC, we are subject to the relevant laws and regulations of the PRC and our Articles of Association. A summary of the relevant aspects of PRC laws and regulations is set out in the section headed "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" in this prospectus. A summary of our Articles of Association is set out in "Appendix V — Summary of the Articles of Association".

2. Changes in the Share Capital of Our Company

Upon our establishment on December 23, 2010, the initial registered share capital of our Company was RMB360,000,000, divided into 360,000,000 Shares of RMB1.00 each.

On November 24, 2015, we increased our registered share capital to RMB720,000,000.

Immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our total issued share capital will be 960,000,000 Shares, comprising 696,000,000 Domestic Shares and 264,000,000 H Shares.

3. Changes in the Share Capital of Our Subsidiaries

A list of our subsidiaries as at the date of this prospectus is set out in the Accountant's Report in Appendix I to this prospectus. The following sets out the alterations in the registered capital of our subsidiaries that took place within two years preceding the date of this prospectus.

(a) Kunming Dianchi Logistics Co., Ltd.

The registered capital of Kunming Dianchi Logistics Co., Ltd., our direct wholly-owned subsidiary, was increased from RMB1.0 million to RMB4.0 million on June 8, 2015.

(b) Dianchi Water (Laos) Wholly-owned Limited Company

We established Dianchi Water (Laos) Wholly-owned Limited Company, our direct wholly-owned subsidiary on August 4, 2016 with registered capital of USD 5.0 million.

(c) Shuangjiang Dianchi Watertreatment Co., Ltd.

We established Shuangjiang Dianchi Watertreatment Co., Ltd., our direct wholly-owned subsidiary on October 8, 2016 with registered capital of RMB10.0 million.

Save as disclosed in this Appendix, there has been no other alteration in the share capital of any subsidiaries of our Company within two years preceding the date of this prospectus.

4. Shareholders' Resolutions

At the general meetings of the Company held on October 17, 2015, May 7, 2016 and June 23, 2016, among other things, the following resolutions were passed by the Shareholders:

(a) the issue by our Company of the H Shares with a nominal value of RMB1.00 each and the listing of such H Shares on the Hong Kong Stock Exchange be approved. The proposed number of H Shares to be offered must not exceed 33.0% of the total enlarged issued share capital after the issue of H Shares (assuming the Over-allotment Option is not exercised) and the Over-allotment Option must not exceed 15% of the H Shares initially available under the Global Offering if fully exercised;

(b) our Articles of Association be approved and become effective on the Listing Date;

(c) the Board and authorized persons of the Board be authorized to draft, amend, sign and submit the applications, relevant reports or materials relating to the proposed listing of H Shares to the relevant authorities in the PRC and the Hong Kong Stock Exchange and to deal with approval, registration, filing, verifications or other formalities; and

(d) the Board and the authorized persons of the Board be authorized to do any acts and things relating to the Global Offering and the Listing.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus that are or may be material and a copy of each has been delivered to the Registrar for registration:

(a) the Non-competition Agreement;

(b) an indemnity undertaking executed by the Controlling Shareholder in favor of the Company dated June 24, 2016 in respect of any losses or expenses which may be incurred by us as a result of the non-compliance and title defects in this prospectus;

(c) a cornerstone investment agreement dated March 22, 2017 entered into among the Company, Kunming Industrial Development and Construction Co. Ltd., Kunming Industrial Development and Investment Co. Ltd., the Sole Sponsor and Huatai Financial Holdings (Hong Kong) Limited, details of which are set out in the section headed "Cornerstone Investors" in this prospectus;

(d) a cornerstone investment agreement dated March 22, 2017 entered into among the Company, Yunnan Provincial Investment Holdings Group Co., Ltd., the Sole Sponsor, and Huatai Financial Holdings (Hong Kong) Limited, details of which are set out in the section headed "Cornerstone Investors" in this prospectus;

(e) a cornerstone investment agreement dated March 22, 2017 entered into among the Company, Beijing Enterprises Water Group Limited, the Sole Sponsor and China International Capital Corporation Hong Kong Securities Limited, details of which are set out in the section headed "Cornerstone Investors" in this prospectus;

(f) a cornerstone investment agreement dated March 22, 2017 entered into among the Company, China Water Environment Group Limited, the Sole Sponsor and China International Capital Corporation Hong Kong Securities Limited, details of which are set out in the section headed "Cornerstone Investors" in this prospectus; and

(g) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights

As at the Latest Practicable Date, we had registered or had applied for the registration of the following intellectual property rights, which are material to our business:

(a) Trademarks

As at the Latest Practicable Date, we had registered the following intellectual property rights, which are material to our business:

	Trademark	Registration No.	Place of Application	Class(1)	Registration Date	Expiration Date
1.	滇池水務	11939315	PRC	39	June 7, 2014	June 6, 2024
2.	DCWT	11939366	PRC	39	June 7, 2014	June 6, 2024
3.	滇池水務	11939430	PRC	40	June 7, 2014	June 6, 2024
4.		11939456	PRC	40	June 7, 2014	June 6, 2024
5.		11939537	PRC	1	June 7, 2014	June 6, 2024
6.	DCWT	11939771	PRC	37	June 7, 2014	June 6, 2024
7.	DCWT	11939913	PRC	42	June 7, 2014	June 6, 2024
8.	DCWT	11939853	PRC	41	June 14, 2014	June 13, 2024
9.		11939500	PRC	36	July 21, 2014	July 20, 2024
10.		11939638	PRC	11	July 21, 2014	July 20, 2024
11.	DCWT滇池水務 DCWT滇池水務 DCWT滇池水務	303566520	Hong Kong	35, 36, 37, 39, 40, 42	October 15, 2015	October 14, 2025
12.		303566511	Hong Kong	35, 36, 37, 39, 40, 42	October 15, 2015	October 14, 2025

	Trademark	Registration No.	Place of Application	Class[(1)]	Registration Date	Expiration Date
13.	DCWT 滇池水务 KUNMING DIANCHI WATER TREATMENT CO.,LTD DCWT 滇池水务 KUNMING DIANCHI WATER TREATMENT CO.,LTD	303733605	Hong Kong	35, 36, 37, 39, 40, 42	April 5, 2016	April 4, 2026
14.	DCWT DCWT DCWT	303733614	Hong Kong	35, 36, 37, 39, 40, 42	April 5, 2016	April 4, 2026

Note:

(1) The class number represents the specifications of products or services which have already been registered. Detailed specifications of products or services represented by that class number are set out in the relevant registration certificates.

As at the Latest Practicable Date, we have applied for the following trademarks which we consider to be or may be material to our business:

	Trademark	Application No.	Place of Application	Class[(1)]	Application Date
1.	昆明滇池水务股份有限公司 KUNMING DIANCHI WATER TREATMENT CO.,LTD 昆明滇池水务股份有限公司 KUNMING DIANCHI WATER TREATMENT CO.,LTD	303733588	Hong Kong	35, 36, 37, 39, 40, 42	April 5, 2016
2.	滇池水务 滇池水务	303733597	Hong Kong	35, 36, 37, 39, 40, 42	April 5, 2016

Note:

(1) The class number represents the specifications of products or services which have already been registered. Detailed specifications of products or services represented by that class number are set out in the relevant registration certificates.

(b) Patents

As at the Latest Practicable Date, we had been granted the following patents in PRC which are material to our business:

	Patent	Patentee	Patent No.	Patent Type	Application Date	Registration Date
1.	A sludge gate (一種污泥料倉刀閘閥)	Our Company	ZL 2014 2 0476580.7	Utility Model	August 22, 2014	December 10, 2014
2.	A micro-sand pneumatic transmission device (一種微砂氣力輸送裝置)	Our Company	ZL 2014 2 0476618.0	Utility Model	August 22, 2014	December 10, 2014
3.	A device of wastewater treatment V-shaped filter avoiding sand leak (一種污水處理V型濾池防跑砂裝置)	Our Company	ZL 2014 2 0383173.1	Utility model	July 11, 2014	December 31, 2014
4.	An efficient membrane cleaning device saving water and drug (一種高效節水、節藥膜組器的清洗裝置)	Our Company	ZL 2014 2 0504620.4	Utility model	September 3, 2014	December 31, 2014
5.	A method and structure of opening and flow regime adjustment without changing the oxidation ditch shape (一種不改變氧化溝池形的開孔與流態調節方法及結構)	Xi'an University of Architecture and Technology; Our Company	ZL 2013 1 0740292.8	Invention	December 27, 2013	May 13, 2015
6.	An SBR coupling oxidation ditch method design for partial oxygen supply (一種SBR耦合氧化溝分區供氧設計方法)	Xi'an University of Architecture and Technology; Our Company	ZL 2014 1 0058289.2	Invention	February 21, 2014	February 10, 2016

	Patent	Patentee	Patent No.	Patent Type	Application Date	Registration Date
7.	Strengthened aeration high temperature sewage sludge hydrolysis and acidification device (曝氣強化污水處理廠剩餘污泥高溫水解酸化裝置)	Our Company; Graduate School at Shenzhen, Tsinghua University	ZL 2015 2 0720704.6	Utility model	September 17, 2015	February 10, 2016
8.	An efficient membrane cleaning method and device saving water and drug (一種高效節水、節藥膜組器的清洗方法及裝置)	Our Company	ZL 2014 1 0444800.2	Invention	September 3, 2014	March 2, 2016
9	A Biological filter technique and the filter (一種生物濾池工藝及濾池)	Our Company; Beijing General Municipal Engineering Design & Research Institute Co., Ltd.	ZL 2014 1 0686060.3	Invention	November 25, 2014	October 26, 2016
10.	A device and method of deep denitrification of sewage (污水反硝化深度脱氮處理設備和處理方法)	Our Company; Graduate School at Shenzhen, Tsinghua University	ZL 2014 1 0091440.2	Invention	March 12, 2014	February 15, 2017
11.	A water intake device for buried sewage treatment system (一種地埋式污水處理系統的進水裝置)	Our Company	ZL 2016 2 0771911.9	Utility model	July 21, 2016	March 8, 2017

As at the Latest Practicable Date, we had been exclusively licensed by Tsinghua University to use the following patent in PRC pursuant to a patent licensing agreement, which is material to our business:

	Patent	Patentee	Licencee	Patent No.	Patent Type	Expiration Date of the licence agreement
1.	A method and device strengthening biological denitrification of urban sewage (一種城市污水強化生物脫氮的方法及裝置)	Tsinghua University	Our Company	201110064546X	Invention	May 4, 2019

(c) Copyrights

As at the Latest Practicable Date, we had registered the following copyrights which are material to our business:

	Software Name	Copyright Owner	Registration No.	First Public Date
1.	Municipal Reclaimed Water User Management Information System V1.0 (城市再生水用戶管理信息系統V1.0)	Our Company	2013SR055635	September 24, 2012
2.	Wastewater Treatment Enterprises Energy Consumption Monitoring and Management Platform V2.0 (污水處理企業能耗監測與管理平台V2.0)	Our Company and Hunan Aijieneng Energy Saving Engineering Service Co., Ltd. (湖南艾捷能節能工程服務有限公司)	2013SR109564	May 1, 2013
3.	Wastewater Treatment Quality Testing and Analysis System V1.0 (污水處理水質化驗分析系統V1.0)	Our Company	2014SR059448	August 30, 2013

	Software Name	Copyright Owner	Registration No.	First Public Date
4.	Wastewater Treatment Online Monitoring Information Management System V1.0 (污水處理在線監測信息管理系統V1.0)	Our Company	2014SR202314	December 1, 2014
5.	Dianchi Water Monitoring and Display System V1.0 (滇池水務監控展示系統V1.0)	Our Company	2015SR045454	January 21, 2015
6.	Dianchi Water Staff Performance Management and Control Platform V1.0 (滇池水務全員績效管控平台V1.0)	Our Company	2015SR045586	January 21, 2015
7.	Chemical Dephosphorization Intelligent Control System V1.0 (化學脱磷智能控制系統 V1.0)	Our Company	2016SR155528	June 24, 2016

(d) Domain Names

As at the Latest Practicable Date, we have registered the following domain names:

	Domain Names	Registered Owner	Registration Date	Expiry Date
1.	kmdcwt.com	Kunming Dianchi Water Co., Ltd.	August 21, 2011	August 21, 2021

Save as aforesaid, there are no other trademarks, patents, copyrights or other intellectual property rights which are material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interest of Our Directors and Supervisors

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), none of our Directors or Supervisors will have any interest and/or short positions in our Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, once the Shares are listed.

Up to the Latest Practicable Date, none of the Directors or Supervisors or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

2. Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observance of the Articles of Association and provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' and Supervisors' Remuneration

The aggregate amounts of remuneration paid and benefit in kinds granted to the Directors and Supervisors in respect of the financial years ended December 31, 2014, 2015 and 2016 were RMB754,000, RMB1,296,000, RMB982,000, respectively. No Director or Supervisor received other remuneration from our Company in respect of the three financial years ended December 31, 2016.

Under the current arrangements, it is expected that our Directors and Supervisors would receive compensation from our Company for the year ending December 31, 2017 in the aggregate amount of approximately RMB1.5 million.

There was no arrangement under which a Director or Supervisor has waived or agreed to waive any emoluments during the Track Record Period.

4. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital carrying voting power at general meetings:

			Immediately following the completion of the Global Offering (assuming no exercise of the Over-Allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-Allotment Option)		
Name of Shareholder	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company	Number of Shares directly or indirectly held	Approximate % interest in our Company	Approximate % of the relevant class of Shares of our Company
Kunming Dianchi Investment ·······	Beneficial Owner	Domestic Shares	666,899,801	69.46%	95.82%	663,440,371	66.62%	95.82%

5. Agency Fee or Commission Paid or Payable

Save as disclosed in this prospectus, no commissions, discounts, agency fees, brokerage or other special terms have been paid in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within two years preceding the date of this prospectus.

6. Disclaimers

Except as disclosed in this prospectus:

(a) None of our Directors or Supervisors and any of the parties listed in "— D. Other Information — 4. Qualification of Experts":

(i) is interested in our promotion, or in any assets which, within two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;

(ii) is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

(b) none of the parties listed in the section headed "— D. Other Information — 4. Qualification of Experts" in this prospectus:

  (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or

  (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;

(c) as at the Latest Practicable Date, none of the Directors, Supervisors, their respective associates, or any of the Shareholders (who to the knowledge of the Directors owns more than 5% of our issued share capital), had any interest in any of our five largest suppliers and five largest customers;

(d) none of our Directors, Supervisors or chief executive has any interests or short positions in our Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the H Shares are listed on the Stock Exchange;

(e) so far as is known to any Directors or Supervisors of our Company, none of our Directors or Supervisors is a director or employee of a company that has an interest in the share capital of our Company which, once the H Shares are listed on the Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested 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 of our subsidiaries; and

(f) none of our Directors is interested in any business apart from the Company's business which competes or is likely to compete, directly or indirectly, with the business of the Company and is required to be disclosed pursuant to the Listing Rules.

D. OTHER INFORMATION

1. Estate Duty

The Directors have been advised that currently no material liability for estate duty is likely to fall upon our Company or any of our subsidiaries.

2. Litigation

Except as disclosed in this prospectus, no member of our Group is involved in any litigation, arbitration or administrative proceedings of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us as at the Latest Practicable Date.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over allotment Option). All necessary arrangements have been made to enable the securities to be admitted into CCASS for clearing and settlement.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Our Company agreed to pay the Sole Sponsor a fee of RMB2.5 million as the sponsor of our Company (the "**Sponsor Fee**"). The Sponsor Fee relates solely to services provided by the Sole Sponsor in its capacity as a sponsor, and not other services which it may provide, such as (without limitation) book-building, pricing and underwriting.

4. Qualification of Experts

The qualifications of the experts (as defined under the Listing Rules) who have given opinions in this prospectus are as follows:

Name of Expert	Nature of Interest
Morgan Stanley Asia Limited	a licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities
PricewaterhouseCoopers	Certified Public Accountants
Yunnan Beichuan Law Firm	PRC legal adviser
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry Consultant

5. Consents

Each of the experts as referred to in the section headed "— D. Other Information — 4. Qualification of Experts" in this prospectus has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

6. Compliance Adviser

We have appointed Haitong International Capital Limited as our compliance adviser upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

7. Preliminary Expenses

We have not incurred any preliminary expenses.

8. Promoters

Information of our promoters is as follows:

1. Kunming Dianchi Investment Co. Ltd.*
(昆明滇池投資有限責任公司)

2. Kunming Development Investment Group Co. Ltd.*
(昆明發展投資集團有限公司)

3. Kunming Industrial Development and Investment Co. Ltd.*
(昆明產業開發投資有限責任公司)

4. Kunming State-owned Assets Management and Operations Co. Ltd.*
(昆明市國有資產管理營運有限責任公司)

5. Kunming Xindu Real Estate Co. Ltd.*
(昆明新都置業有限公司)

Save as the Global Offering and those disclosed in this prospectus, no cash, securities, amounts or interests had been distributed, allotted or granted or proposed to be distributed, allotted or granted to any of the aforementioned promoters in connection with the Global Offering or relevant transactions disclosed in this prospectus within two years preceding the date of this prospectus.

9. Binding Effect

This prospectus shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provision) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. No Material Adverse Change

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2016 (being the date to which our latest combined financial results were prepared, as set out in the Accountant's Report).

11. 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 Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. Particulars of the Selling Shareholders

Certain particulars of the Selling Shareholders are set out as follows:

Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
1 Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司)	29,567,365	34,002,757	Its principal business is the investment, construction, operation and management of projects as determined by the Kunming People's Government, the investment and construction of wastewater treatment plants in the Yunnan Province, the PRC, and the investment, operation and management of assets relating to the infrastructure, technology and other sectors	Wastewater Treatment Plant No. 1 Xishan District Kunming, Yunnan PRC
2 Kunming Development Investment Group Co. Ltd. (昆明發展投資集團有限公司)	938,597	1,079,396	Its principal business is financing major infrastructure assets and projects within Kunming city, operating state-owned assets, property development, investing in and management of agriculture and water related projects.	25 Panlong Road Kunming, Yunnan PRC
3 Kunming Industrial Development and Investment Co. Ltd. (昆明產業開發投資有限責任公司)	117,346	134,949	Its principal business is investment in and management of projects commissioned by the government, asset management, industrial development and land development.	5–6/F, Walton Mansion 448 Qingnian Road Kunming, Yunnan PRC
4 Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	117,346	134,949	It is engaged in the holding of equity interests of state-owned enterprises and management of state-owned assets.	2/F and 4/F, Building 1 25 Panlong Road Kunming, Yunnan PRC

Name	Number of Sale Shares (assuming no exercise of the Over-allotment Option)	Number of Sale Shares (assuming full exercise of the Over-allotment Option)	Description	Address
5 Kunming Xindu Real Estate Co. Ltd. (昆明新都置業有限公司)	117,346	134,949	Its principal business is infrastructure construction within Kunming city, integrated land development, dismantling, management and development of municipal facilities projects, landscaping projects, and property management of municipal facilities projects.	Frontage Store Hui Lan Yuan Chenggong District Kunming, Yunnan PRC

13. Miscellaneous

Save as disclosed in this prospectus,

(a) within two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any Shares of our Company;

(b) no Share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;

(c) we have not issued nor agreed to issue any founder share, management shares or deferred shares;

(d) none of our subsidiaries has issued or agreed to issue any debentures;

(e) we have no outstanding convertible debt securities or debentures;

(f) there are no arrangements under which future dividends are waived or agreed to be waived;

(g) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;

(h) no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Stock Exchange is currently being or agreed to be sought; and

(i) we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC (中華人民共和國中外合資經營企業法).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the section headed "Statutory and General Information — D. Other Information — 5. Consents" in Appendix VI to this prospectus;

(c) copies of the material contracts referred to in the section headed "Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts" in Appendix VI to this prospectus; and

(d) the statement of particulars of the Selling Shareholders.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Latham & Watkins at 18/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) our Articles of Association;

(b) the Accountant's Report from PricewaterhouseCoopers, the text of which is set out in Appendix I in this prospectus;

(c) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix II in this prospectus;

(d) the PRC legal opinion(s) dated the prospectus date issued by Yunnan Beichuan Law Firm, our legal advisers as to PRC law in respect of general matters and property interests;

(e) the material contracts referred to in the section headed "Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts" in Appendix VI to this prospectus;

(f) our audited consolidated financial statements for each of the years ended December 31, 2014, 2015 and 2016;

(g) the consents referred to in the section headed "Statutory and General Information — D. Other Information — 5. Consents" in Appendix VI to this prospectus;

(h) the service agreements referred to in the section headed "Statutory and General Information — C. Further Information about Our Directors, Supervisors and Substantial Shareholders — 2. Service Contracts" in Appendix VI to this prospectus;

(i) the PRC Company Law together with its unofficial English translation version;

(j) the Mandatory Provisions together with its unofficial English translation version; and

(k) the Special Regulations together with its unofficial English translation version.

DCWT 滇池水务
KUNMING DIANCHI WATER TREATMENT CO.,LTD