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Datang Environment Industry Group Co., Ltd.*
大唐環境產業集團股份有限公司

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

(Stock Code: 1272)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL AND OPERATION HIGHLIGHTS

- For the year ended 31 December 2016, the revenue of the Group amounted to RMB8,156.5 million, representing a decrease of 5.3% as compared with last year.

- For the year ended 31 December 2016, the gross profit of the Group amounted to RMB1,673.3 million and the gross profit margin of the Group amounted to 20.5%, representing an increase of 21.2% and 4.5 percentage points as compared with last year, respectively.

- For the year ended 31 December 2016, the total comprehensive income attributable to owners of the parent amounted to RMB1,021.7 million, representing an increase of 44.8% as compared with last year.

- By 31 December 2016, the cumulative installed capacity in operation of the Group's desulfurization and denitrification concession operation increased by 12.6% and 5.2% as compared with 31 December 2015, respectively. For the year ended 31 December 2016, the production volume of the Group's plate-type denitrification catalysts increased by 22.8% as compared with last year.

- For the year ended 31 December 2016, the Group's first water treatment island BOO project was successfully launched and the total contract value of the Group's EMC business increased by 119.5% as compared with last year.

- The Board recommends to distribute the final dividend for the period from 1 April 2016 to 31 December 2016 of RMB0.125 per Share (before tax).

The board (the "**Board**") of directors (the "**Directors**") of Datang Environment Industry Group Co., Ltd. (the "**Company**") hereby announces the consolidated financial results of the Company and its subsidiaries (the "**Group**" or "**we**" or "**us**") for the year ended 31 December 2016, together with the comparable figures of 2015. The financial data of the Group for the year ended 31 December 2016 set out by the Company in this results announcement is based on the consolidated financial statements prepared according to the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements under the Hong Kong Companies Ordinance.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

(Amounts expressed in thousands of RMB unless otherwise stated)

	Notes	**2016**	2015
Revenue	4	**8,156,469**	8,609,588
Cost of sales		**(6,483,157)**	(7,229,534)
Gross profit		**1,673,312**	1,380,054
Selling and distribution expenses		**(47,018)**	(38,252)
Administrative expenses		**(282,051)**	(289,947)
Other income and gains	4	**113,745**	71,013
Finance costs	5	**(193,065)**	(230,022)
Profit before tax		**1,264,923**	892,846
Income tax expense	6	**(180,193)**	(142,537)
PROFIT FOR THE YEAR		**1,084,730**	750,309

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

Year ended 31 December 2016

(Amounts expressed in thousands of RMB unless otherwise stated)

	Notes	**2016**	2015
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**2,104**	(23)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**2,104**	(23)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**2,104**	(23)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,086,834**	750,286
Profit attributable to:			
Owners of the parent		**1,020,564**	705,753
Non-controlling interests		**64,166**	44,556
		1,084,730	750,309
Total comprehensive income attributable to:			
Owners of the parent		**1,021,657**	705,741
Non-controlling interests		**65,177**	44,545
		1,086,834	750,286
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted *(RMB)*	8	**0.41**	0.39

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

(Amounts expressed in thousands of RMB unless otherwise stated)

	Notes	**2016**	2015
NON-CURRENT ASSETS			
Property, plant and equipment		**6,643,229**	5,933,987
Intangible assets		**110,501**	90,126
Prepaid land lease payments		**19,996**	20,461
Available-for-sale financial investment		**5,000**	5,000
Deferred tax assets		**24,829**	15,722
Other non-current assets		**115,357**	20,367
Total non-current assets		**6,918,912**	6,085,663
CURRENT ASSETS			
Inventories		**130,286**	154,148
Construction contracts		**237,747**	250,028
Trade and bills receivables	9	**6,375,700**	4,977,538
Prepayments, deposits and other receivables		**1,235,130**	1,034,542
Restricted cash		**25,151**	32,945
Cash and cash equivalents		**3,012,614**	1,443,963
Total current assets		**11,016,628**	7,893,164
CURRENT LIABILITIES			
Trade and bills payables	10	**5,766,675**	5,101,859
Other payables and accruals		**1,047,059**	806,097
Interest-bearing bank borrowings and other loans	11	**1,166,318**	1,014,502
Income tax payable		**42,918**	39,578
Total current liabilities		**8,022,970**	6,962,036
NET CURRENT ASSETS		**2,993,658**	931,128
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,912,570**	7,016,791

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
31 December 2016
(Amounts expressed in thousands of RMB unless otherwise stated)

	Notes	**2016**	2015
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings and other loans	11	**3,465,837**	3,372,838
Other non-current liabilities		**31,379**	16,882
Total non-current liabilities		**3,497,216**	3,389,720
Net assets		**6,415,354**	3,627,071
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	**2,967,542**	2,400,000
Reserves		**3,272,466**	1,100,191
		6,240,008	3,500,191
Non-controlling interests		**175,346**	126,880
Total equity		**6,415,354**	3,627,071

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

(Amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to owners of the parent							
	Share capital	Capital reserve*	Exchange fluctuation reserve*	Statutory surplus reserve*	Retained profits*	Total	Non-controlling interests	Total equity
At 1 January 2016	**2,400,000**	**64,865**	**(12)**	**73,529**	**961,809**	**3,500,191**	**126,880**	**3,627,071**
Profit for the year	**–**	**–**	**–**	**–**	**1,020,564**	**1,020,564**	**64,166**	**1,084,730**
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	**–**	**–**	**1,093**	**–**	**–**	**1,093**	**1,011**	**2,104**
Total comprehensive income for the year	**–**	**–**	**1,093**	**–**	**1,020,564**	**1,021,657**	**65,177**	**1,086,834**
Capital contribution	**567,542**	**1,250,375**	**–**	**–**	**–**	**1,817,917**	**–**	**1,817,917**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**90,009**	**(90,009)**	**–**	**–**	**–**
Dividends declared to owners of the parent *(note 7)*	**–**	**–**	**–**	**–**	**(100,000)**	**(100,000)**	**–**	**(100,000)**
Dividends declared by a subsidiary to its non-controlling equity owners	**–**	**–**	**–**	**–**	**–**	**–**	**(4,275)**	**(4,275)**
Acquisition of non-controlling interests	**–**	**243**	**–**	**–**	**–**	**243**	**(12,436)**	**(12,193)**
At 31 December 2016	**2,967,542**	**1,315,483**	**1,081**	**163,538**	**1,792,364**	**6,240,008**	**175,346**	**6,415,354**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2016

(Amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to owners of the parent							
	Share capital	Capital reserve*	Exchange fluctuation reserve*	Statutory surplus reserve*	Retained profits*	Total	Non-controlling interests	Total equity
At 1 January 2015	550,000	62,891	–	91,897	889,662	1,594,450	92,785	1,687,235
Profit for the year	–	–	–	–	705,753	705,753	44,556	750,309
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	(12)	–	–	(12)	(11)	(23)
Total comprehensive income for the year	–	–	(12)	–	705,753	705,741	44,545	750,286
Conversion into a joint stock company with limited liability	650,000	1,974	–	(91,897)	(560,077)	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	(14,232)	(14,232)
Appropriation to statutory surplus reserve	–	–	–	73,529	(73,529)	–	–	–
Dividends declared by a subsidiary to its non-controlling equity owners	–	–	–	–	–	–	(20,718)	(20,718)
Capital contribution by non-controlling equity owners	–	–	–	–	–	–	24,500	24,500
Capital contribution	1,200,000	–	–	–	–	1,200,000	–	1,200,000
At 31 December 2015	2,400,000	64,865	(12)	73,529	961,809	3,500,191	126,880	3,627,071

* These reserves accounts comprise the consolidated reserves of RMB3,272,466,000 (2015: RMB1,100,191,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

(Amounts expressed in thousands of RMB unless otherwise stated)

	Notes	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,264,923**	892,846
Adjustments for:			
Finance costs		**193,065**	230,022
Interest income		**(8,358)**	(27,391)
Depreciation of property, plant and equipment		**422,310**	312,907
Amortization of intangible assets		**9,447**	10,038
Amortization of prepaid land lease payments		**465**	738
(Gain)/loss on disposal of items of property, plant and equipment	4	**215**	(2,446)
Investment income		**–**	(23,843)
Impairment of intangible assets		**–**	1,375
Impairment of trade receivables	9	**7,593**	33,945
Impairment of inventories		**–**	391
Decrease in inventories		**24,179**	44,317
Decrease/(increase) in construction contracts		**12,281**	(152,235)
Increase in trade and bills receivables		**(1,405,755)**	(850,280)
Decrease in prepayments, deposits and other receivables		**69,092**	93,171
Increase in trade and bills payables		**664,816**	686,031
Increase in other payables and accruals		**234,805**	170,060
Decrease/(increase) in restricted cash		**7,794**	(21,354)
Cash generated from operations		**1,496,872**	1,398,292
Income tax paid		**(193,278)**	(131,762)
Net cash flows from operating activities		**1,303,594**	1,266,530

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
Year ended 31 December 2016
(Amounts expressed in thousands of RMB unless otherwise stated)

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**8,358**	27,391
Investment income received	**–**	5,550
Purchase of items of property, plant and equipment and intangible assets	**(1,584,463)**	(3,165,645)
Payment for available-for-sale financial investment	**–**	(5,000)
Proceeds from disposal of items of property, plant and equipment	**163**	167,748
Repayment of loans by related parties	**–**	265,000
Loans to related parties	**–**	(115,000)
Disposal of subsidiaries	**–**	15,521
Others	**87**	–
Net cash flows used in investing activities	**(1,575,855)**	(2,804,435)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings and other loans	**1,526,230**	3,231,843
Repayments of bank borrowings and other loans	**(1,281,415)**	(2,302,540)
Proceeds from issue of shares	**1,918,867**	–
Share issue expenses	**(48,301)**	–
Capital contribution	**–**	1,224,500
Dividends paid to shareholders	**(100,000)**	–
Dividends paid to non-controlling interests	**(8,431)**	(17,000)
Interest paid	**(194,388)**	(229,462)
Net cash flows from financing activities	**1,812,562**	1,907,341
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,540,301**	369,436
Cash and cash equivalents at beginning of year	**1,443,963**	1,072,057
Effect of foreign exchange rate changes, net	**28,350**	2,470
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3,012,614**	1,443,963

1. CORPORATE AND GROUP INFORMATION

Datang Environment Industry Group Co., Ltd. (the "**Company**") (大唐環境產業集團股份有限公司) was established on 25 July 2011 in the People's Republic of China (the "**PRC**") with limited liability. On 26 June 2015, the Company converted into a joint stock company with limited liability from a limited liability company. The shares of the Company have been listed on the Main board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on 15 November 2016. The address of its registered office is No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC.

The Company and its subsidiaries (together the "**Group**") are involved in the following principal activities: development of environmental protection projects, investment on environmental facilities and operating management; research & development, design, production, examination, sale and technical services of denitrification catalysts; research & development, manufacture and sale of self-controlled systems; development and testing of environmental protection technology; production and sale of environmental protection equipment; design, construction and contracting of environmental protection engineering; treatment of sewage and seawater; design and contracting of power engineering systems; energy saving techniques as well as development and usage of new energy technology; design and contracting of material transportation systems and corrosion protection engineering systems; building materials and chemical products (excluding hazardous chemicals); sale of machinery equipment, electronic products and hardware; contracting of overseas projects; import and export businesses; consultation services in relation to the above businesses. (For the projects subject to law and approval, operating activities of which shall commenced in accordance with the contents approved by the relevant departments upon approval.)

In the opinion of the Directors, the immediate holding company and ultimate holding company of the Company is China Datang Corporation ("**China Datang**"), a company established and domiciled in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 BASIS OF PREPARATION (CONTINUED)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests, and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

All IFRSs effective for the accounting period commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Group in preparation of the financial statements of the Group throughout the Initial Public Offering ("**IPO**") periods and 2016 when it prepared its IPO prospectus in 2016. Therefore, there have been no changes in accounting policies and disclosures during the current year.

(Amounts expressed in thousands of RMB unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15 and Clarifications to IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]

Annual Improvements to IFRSs 2014–2016 Cycle[1/2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018, however, it is not expected to have significant impact on the financial position or performance of the Group based on its current business. Considering that IFRS 9 will become effective in 2018, the Group will continually assess the impact of IFRS 9.

IFRS 15 and Clarifications to IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 16 *Leases*

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019. IFRS 16 will have impact on the recognition of assets and liabilities of the Group upon adoption. However, considering that IFRS 16 will become effective in 2019, the Group will continually assess the impact of IFRS 16.

Amendments to IAS 7 *Disclosure Initiative*

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group expects to adopt the amendments from 1 January 2018.

Annual Improvements to IFRSs 2014–2016 Cycle

Annual Improvements to IFRSs 2014–2016 Cycle issued in December 2016 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

IFRS 12 *Disclosure of Interests in Other Entities*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments are effective from 1 January 2017 and must be applied retrospectively. The Group expects to adopt the amendments from 1 January 2017.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to their nature. Each of the Group's operating segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

(a) Environmental protection and energy conservation solutions

The environmental protection and energy conservation solutions business mainly includes flue gas desulfurization and denitrification facilities concession operation for coal-fired power plants; the manufacture and sale of denitrification catalysts; engineering for coal-fired power plants, including the engineering of denitrification, desulfurization, dust removal, ash and slag handling and other environmental protection facilities and industrial site dust management related engineering; water treatment; and energy conservation including energy conservation engineering and energy management contract ("**EMC**").

(b) Renewable energy engineering

The renewable energy engineering business mainly includes the engineering general contracting for newly-built wind power plants, biomass power plants and photovoltaic power plants.

(c) Thermal power plants engineering general contracting

The thermal power plants engineering general contracting business mainly includes the engineering, procurement and construction ("**EPC**") services for thermal power plants.

(d) Other businesses

Other businesses currently mainly include various businesses such as fiberglass chimney anti-corrosion, air cooling system engineering general contracting and coal yard monitoring system upgrade.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that unallocated income and gains, finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

(Amounts expressed in thousands of RMB unless otherwise stated)

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment assets exclude unallocated intangible assets, unallocated deferred tax assets, unallocated prepayments, deposits and other receivables, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings for daily operation purposes, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2016	Environmental protection and energy conservation solutions	Renewable energy engineering	Thermal power plants engineering general contracting	Other businesses	Total
Segment revenue					
Sales to external customers	**6,008,992**	**1,919,564**	**–**	**227,913**	**8,156,469**
Intersegment sales	**44,216**	**–**	**–**	**14,028**	**58,244**
	6,053,208	**1,919,564**	**–**	**241,941**	**8,214,713**
Reconciliation:					
Elimination of intersegment sales					**(58,244)**
Revenue					**8,156,469**
Segment results	**1,433,191**	**99,580**	**–**	**57,091**	**1,589,862**
Reconciliation:					
Other income and gains					**113,745**
Corporate and other unallocated expenses					**(245,619)**
Finance costs					**(193,065)**
Profit before tax					**1,264,923**

(Amounts expressed in thousands of RMB unless otherwise stated)

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2016	Environmental protection and energy conservation solutions	Renewable energy engineering	Thermal power plants engineering general contracting	Other businesses	Total
Segment assets	14,163,731	1,740,823	92,779	624,281	16,621,614
Reconciliation:					
Elimination of intersegment receivables					(432,182)
Corporate and other unallocated assets					1,746,108
Total assets					17,935,540
Segment liabilities	5,087,071	1,545,296	79,444	513,898	7,225,709
Reconciliation:					
Elimination of intersegment payables					(432,182)
Corporate and other unallocated liabilities					4,726,659
Total liabilities					11,520,186
Other segment information					
Impairment losses/ (reversal of impairment losses) recognised in profit or loss	(2,582)	–	–	10,175	7,593
Depreciation and amortisation	417,916	75	76	14,155	432,222
Capital expenditure*	1,017,840	–	–	144,159	1,161,999

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and intangible assets.

(Amounts expressed in thousands of RMB unless otherwise stated)

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015	Environmental protection and energy conservation solutions	Renewable energy engineering	Thermal power plants engineering general contracting	Other businesses	Total
Segment revenue					
Sales to external customers	5,453,813	2,674,166	147,538	334,071	8,609,588
Intersegment sales	11,734	–	5,435	17,615	34,784
	5,465,547	2,674,166	152,973	351,686	8,644,372
Reconciliation:					
Elimination of intersegment sales					(34,784)
Revenue					8,609,588
Segment results	1,254,595	16,739	881	35,036	1,307,251
Reconciliation:					
Other income and gains					71,013
Corporate and other unallocated expenses					(255,396)
Finance costs					(230,022)
Profit before tax					892,846

(Amounts expressed in thousands of RMB unless otherwise stated)

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015	Environmental protection and energy conservation solutions	Renewable energy engineering	Thermal power plants engineering general contracting	Other businesses	Total
Segment assets	11,781,645	1,369,261	172,850	536,038	13,859,794
Reconciliation:					
Elimination of intersegment receivables					(334,188)
Corporate and other unallocated assets					453,221
Total assets					13,978,827
Segment liabilities	5,341,667	1,459,376	177,589	493,307	7,471,939
Reconciliation:					
Elimination of intersegment payables					(334,188)
Corporate and other unallocated liabilities					3,214,005
Total liabilities					10,351,756
Other segment information					
Impairment losses recognised in profit or loss	18,483	–	–	17,228	35,711
Depreciation and amortization	308,269	106	83	15,225	323,683
Capital expenditure*	3,089,352	25	–	8,730	3,098,107

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and intangible assets.

(Amounts expressed in thousands of RMB unless otherwise stated)

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

The majority of the non-current assets are located in the PRC, and the majority of revenues are generated from Mainland China. Therefore, no geographical information is presented.

Information about major customers

Revenue of approximately RMB6,204 million (2015: RMB7,733 million) was derived from sales of goods and the rendering of services to China Datang and its subsidiaries (excluding the Group) ("**China Datang Group**"), including sales to a group of entities which are known to be under common control.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered for desulfurization and denitrification and others during the year.

An analysis of revenue, other income and gains is as follows:

	2016	2015
Revenue		
Revenue from sales of goods	**434,255**	376,630
Revenue from construction services	**5,186,012**	6,017,244
Revenue from desulfurization and denitrification services	**2,478,340**	1,881,643
Revenue from other services	**57,862**	334,071
	8,156,469	8,609,588

(Amounts expressed in thousands of RMB unless otherwise stated)

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	2016	2015
Other income		
Bank interest income	**8,358**	27,391
Investment income	**–**	23,843
Government grants	**65,832**	14,424
	74,190	65,658
Gains		
Gain/(loss) on disposal of items of property, plant and equipment	**(215)**	2,446
Exchange gains *(a)*	**39,770**	2,909
	39,555	5,355
	113,745	71,013

(a) Included an exchange gain of RMB24 million arising from the conversion of the HK dollars received from the issuance of the Company's H shares into Renminbi during the year ended 31 December 2016.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
Interest expenses on bank borrowings and other loans	**203,098**	234,794
Less: interest capitalized	**(10,033)**	(4,772)
	193,065	230,022

(Amounts expressed in thousands of RMB unless otherwise stated)

6. INCOME TAX EXPENSE

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and the PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), certain branches and subsidiaries of the Company were recognised as high-technology enterprises and were subject to a preferential corporate income tax rate of 15%.

Certain branches of the Company are engaged in qualified environmental protection and energy or water conservation projects and income derived from such activities is tax exempted for the first 3 years followed by a 50% exemption from the fourth to the sixth years starting from the first year in which the project generates operating income.

Under the PRC Enterprise Income Tax Law and the relevant regulations, except for preferential treatments available to certain branches and subsidiaries as mentioned above, other subsidiaries within the Group were subject to corporate income tax at the statutory rate of 25%.

The subsidiary of the Company in India is subject to corporate income tax at a rate of 30%.

The components of income tax expense for the year are as follows:

	2016	2015
Current – PRC	**176,940**	149,059
Current – other country	**12,360**	178
Deferred	**(9,107)**	(6,700)
	180,193	142,537

(Amounts expressed in thousands of RMB unless otherwise stated)

6. INCOME TAX EXPENSE (CONTINUED)

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rate applicable in the PRC to the income tax expense at the Group's effective income tax rate for year is as follows:

	2016	2015
Profit before tax	**1,264,923**	892,846
Income tax at the statutory income tax rate of 25%	**316,231**	223,212
Effect of a different tax rate applicable in an other country	**2,060**	30
Effect of the preferential income tax rate	**(133,778)**	(90,741)
Expenses not deductible for tax	**2,721**	12,228
Income not subject to tax	**–**	(744)
Additional deduction of research and development costs	**(1,994)**	(1,895)
Adjustments in respect of current tax of previous periods	**(1,863)**	–
Tax credit from purchase of domestic equipment	**(3,235)**	–
Others	**51**	447
Income tax charge for the year	**180,193**	142,537
The Group's effective rate	**14.3%**	16.0%

7. DIVIDENDS

The dividends during the years ended 31 December 2016 and 2015 are set out below:

	2016	2015
Dividends declared to owners of the parent	**100,000**	–

On 24 March 2017, the board of directors of the Company proposed to distribute the final dividend for the period from 1 April 2016 to 31 December 2016 of RMB0.125 per ordinary share (before tax), based on the issued share capital of the Company of 2,967,542,000 shares. The proposed final dividend is subject to the approval of the Company's shareholders at the 2016 annual general meeting.

(Amounts expressed in thousands of RMB unless otherwise stated)

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,469,262,115 shares and 1,811,506,849 shares for the years ended 31 December 2016 and 2015 on the assumption that the 1,200,000,000 shares of the Company upon its conversion into a joint stock company with limited liability on 26 June 2015 had been outstanding since 1 January 2015.

The Company did not have any potential dilutive shares in issue during the years ended 31 December 2016 and 2015. Accordingly, the diluted earnings per share amounts are the same as the basic earnings per share amounts.

The calculations of basic and diluted earnings per share are based on:

Earnings

	2016	2015
Profit attributable to ordinary equity holders of the parent, used in the basic/diluted earnings per share calculations *(RMB)*	**1,020,563,880**	705,752,623

Shares

	Number of shares	
	2016	2015
Weighted average number of ordinary shares in issue during the year, used in the basic/diluted earnings per share calculations	**2,469,262,115**	1,811,506,849

Earnings per share

	2016	2015
Basic/diluted earnings per share *(RMB)*	**0.41**	0.39

(Amounts expressed in thousands of RMB unless otherwise stated)

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for EPC contracts, where payment in advance is normally required. The credit period is generally within one year. The Group seeks to maintain strict control over the outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest bearing.

	2016	2015
Trade receivables	**5,879,063**	4,776,954
Less: provision for impairment	**(91,312)**	(83,719)
	5,787,751	4,693,235
Bills receivable	**587,949**	284,303
	6,375,700	4,977,538

(a) Ageing analysis

An aging analysis of the trade and bills receivables, based on the invoice date or billing date and net of provision for impairment of trade receivables, at the end of the reporting period is as follows:

	2016	2015
Within 1 year	**4,427,993**	3,415,829
Between 1 and 2 years	**1,165,106**	1,307,533
Between 2 and 3 years	**686,358**	172,884
Over 3 years	**187,555**	165,011
	6,467,012	5,061,257
Less: provision for impairment	**(91,312)**	(83,719)
	6,375,700	4,977,538

(Amounts expressed in thousands of RMB unless otherwise stated)

9. TRADE AND BILLS RECEIVABLES (CONTINUED)

(a) Ageing analysis (Continued)

An aging analysis of trade and bills receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	2016	2015
Neither past due nor impaired	**4,427,993**	3,415,829
Past due but not impaired:		
Within 1 year	**1,148,069**	972,025
Between 1 and 2 years	**610,217**	123,532
Between 2 and 3 years	**7,327**	58,999
Over 3 years	**52,041**	34,520
	6,245,647	4,604,905

Receivables that were neither past due nor impaired relate to various related parties for whom there was no recent history of default.

Receivables that were past due but not impaired relate to companies that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(b) Impairment of trade receivables

Movements in the provision for impairment of trade receivables are as follows:

	2016	2015
At beginning of the year	**83,719**	51,091
Impairment for the year	**10,314**	33,945
Reversal	**(2,721)**	–
Disposal of subsidiaries	**–**	(1,317)
At end of the year	**91,312**	83,719

As at 31 December 2016, the net carrying amounts of certain trade and bill receivables of the Group of nil (31 December 2015: approximately RMB35,497,000) were pledged to secure certain bank borrowings and other loans granted to the Group (note 11).

(Amounts expressed in thousands of RMB unless otherwise stated)

10. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing and are normally settled within one year.

For retention money payables, included in trade payables, in respect of guarantees granted by the suppliers, the due dates usually range from six months to one year after the completion of the construction work or the preliminary acceptance of equipment.

	2016	2015
Bills payable	**36,478**	59,677
Trade payables	**5,730,197**	5,042,182
	5,766,675	5,101,859

An aging analysis of the trade and bills payables at the end of the reporting period is as follows:

	2016	2015
Within 1 year	**4,231,928**	4,015,861
Between 1 and 2 years	**850,803**	560,049
Between 2 and 3 years	**297,885**	153,701
Over 3 years	**386,059**	372,248
	5,766,675	5,101,859

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS

	Effective interest rate (%)	Maturity	2016	2015
Current				
Bank borrowings:				
– unsecured	3.92%–5.60%	2016–2017	**468,450**	350,000
– secured	4.60%	2016	**–**	31,920
			468,450	381,920
Other loans:				
– unsecured	3.91%	2017	**50,000**	–
			50,000	–
Current portion of long term bank borrowings and other loans				
Bank borrowings – unsecured	4.37%–5.15%	2016–2017	**514,115**	612,582
Bank borrowings – guaranteed	4.28%	2017	**3,753**	–
Other loans – secured	5.02%–7.46%	2016–2017	**130,000**	20,000
			647,868	632,582
			1,166,318	1,014,502

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS (CONTINUED)

	Effective interest rate *(%)*	**Maturity**	**2016**	2015
Non-current				
Long term bank borrowings and other loans:				
Bank borrowings – unsecured	4.28%–5.15%	2017–2026	**3,292,831**	3,144,758
Bank borrowings – guaranteed	4.28%–4.41%	2018–2026	**44,926**	–
Other loans – secured	7.46%	2017	**–**	130,000
Other loans – unsecured	4.79%–5.75%	2017–2021	**128,080**	98,080
			3,465,837	3,372,838
			4,632,155	4,387,340
Interest-bearing bank borrowings and other loans denominated in – RMB			**4,632,155**	4,387,340

(Amounts expressed in thousands of RMB unless otherwise stated)

11. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS (CONTINUED)

The maturity profile of the interest-bearing bank borrowings and other loans as at the end of the reporting period is as follows:

	2016	2015
Analysed into:		
Bank loans repayable:		
Within one year	**986,318**	994,502
In the second year	**665,297**	474,646
In the third to fifth years, inclusive	**1,575,174**	1,387,319
Beyond five years	**1,097,286**	1,282,793
	4,324,075	4,139,260
Other loans repayable:		
Within one year	**180,000**	20,000
In the second year	**–**	130,000
In the third to fifth years, inclusive	**128,080**	42,500
Beyond five years	**–**	55,580
	308,080	248,080
	4,632,155	4,387,340

The above secured bank borrowings and other loans are secured by certain assets with net carrying values as follows:

	2016	2015
Trade and bills receivables *(note 9)*	**–**	35,497
Property, plant and equipment	**166,164**	179,934
Intangible assets	**16,973**	18,589

(Amounts expressed in thousands of RMB unless otherwise stated)

12. SHARE CAPITAL

Shares

	2016	2015
Issued and fully paid:		
2,967,542,000 (2015: 2,400,000,000 shares) ordinary shares	**2,967,542**	2,400,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue *(thousands)*	**Share capital**
At 1 January 2015	550,000	550,000
Conversion into a joint stock company with limited liability *(Note (a))*	650,000	650,000
Capital contribution *(Note (b))*	1,200,000	1,200,000
At 31 December 2015 and 1 January 2016	2,400,000	2,400,000
Capital contribution *(Note (c))*	567,542	567,542
At 31 December 2016	2,967,542	2,967,542

12. SHARE CAPITAL (CONTINUED)

(a) On 26 June 2015, the Company was converted into a joint stock company with limited liability from a limited liability company. Pursuant to the approval of the State-owned Assets Supervision and Administration Commission, the Company's equity of RMB1,249,709,000 was converted into share capital with an amount of RMB1,200,000,000 and capital reserve with an amount of RMB49,709,000 of the joint stock company with limited liability. The capital of the Company increased by RMB650,000,000 upon conversion, and the total capital of the Company was RMB1,200,000,000, which was divided into 1,200,000,000 ordinary shares of RMB1 each.

(b) On 29 June 2015, the Company's shareholders, China Datang and Capital Holding invested RMB1,188,000,000 and RMB12,000,000 to the Company, respectively. Therefore, the total share capital of the Company increased to RMB2,400,000,000, which was divided into 2,400,000,000 ordinary shares of RMB1 each. Ruihua Certified Public Accountants (瑞華會計師事務所) have verified the issued share capital, and issued related capital verification reports of Ruihua Yan Zi [2015] No. 01300051 and Ruihua Yan Zi [2015] No. 01300052 (瑞華驗字[2015]01300051號及[2015]01300052號).

(c) On 15 November 2016, the Company's shares were listed on the Hong Kong Stock Exchange in connection with the Company's global offering, 540,000,000 ordinary shares of per value of RMB1.00 each issued at a price of HK$3.78 per share. On 15 December 2016, the Company exercised the over-allotment option with 27,542,000 ordinary shares of par value of RMB1.00 each issued at a price of HK$3.78 per share. The total cash consideration for the above issuance was, before expenses, approximately HK$2,145 million.

The net proceeds received from the issue of 567,542,000 H shares amounted to RMB1,817,917,000, net of share issue expenses. Part of the net proceeds amounting to RMB567,542,000 was credited as issued share capital, and the remaining balance of the proceeds of RMB1,250,375,000 was credited to capital reserve. The share capital of the Company increased from RMB2,400,000,000 to RMB2,967,542,000 accordingly upon completion of the issue of the new shares.

13. EVENT AFTER THE REPORTING PERIOD

On 24 March 2017, the Board of Directors proposed to distribute the final dividend for the period from 1 April 2016 to 31 December 2016 of RMB0.125 per share (before tax) of the Company in cash to the shareholders. The proposal is subject to the approval of the shareholders at the 2016 annual general meeting of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

As an environmental protection and energy conservation solution provider for coal-fired power generation enterprises, the principal business of the Group includes environmental protection facility concession operation, denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy engineering business. Customers of the Group spread over 30 provinces, autonomous regions and municipal cities in the PRC as well as five countries.

I. INDUSTRY OVERVIEW

The amended *Law of Prevention and Control of Air Pollution* (《大氣污染防治法》) was implemented nationwide in January 2016, aiming to strengthen the comprehensive prevention and control of air pollutants from various sources including coal-burning, and impose synergistic control over dust, sulfur dioxide, nitrogen oxides and other atmospheric pollutants. In addition, it will further promote the production and utilization of clean energy. In July 2016, the PRC governments launched the *13th Five-Year Plan of Energy Development* (《能源發展「十三五」規劃》), which proposed the thorough implementation of the ultra-low emission and energy conservation refurbishments for coal-fired power generation units and encouraged the application of clean and efficient coal-fired power technology. The PRC governments further promulgated the *13th Five-Year Plan of Development of Energy Conservation and Environmental Protection Industries* (《「十三五」節能環保產業發展規劃》) and the *13th Five-Year Comprehensive Action Plan for Energy Conservation and Emission Reduction* (《「十三五」節能減排綜合工作方案》) in December 2016, targeting the strict enforcement of the energy efficiency and environmental protection standards and the reinforcement of the monitoring of pollutant emission by power plants. The energy conservation and environmental protection industry is expected to grow rapidly and become one of the largest backbone industries for the development of China's economy by 2020.

According to an independent research report issued by Frost & Sullivan on the market of environmental protection and energy conservation of coal-fired power plants in the PRC (the "**Frost & Sullivan Report**"), boosted by favorable government policies, the market has witnessed increasing recognition of the concession operation model in the industry of environmental protection for coal-fired power plants. By the end of 2016, in terms of the installed capacity of power generation units, desulfurization facilities and denitrification facilities operated under concession operation model accounted for 19.5% and 13.2%, respectively, of all desulfurization and denitrification facilities in operation in the PRC, representing a growth of 3.3 percentage points and 5.2 percentage points, respectively, as compared with 2015. The market of flue gas concession operation for coal-fired power plants will maintain sustainable and healthy growth benefiting from the increasing market recognition and the continuous promotion and support by the PRC governments. According to the Frost & Sullivan Report, by the end of 2016, in terms of the cumulative contracted capacity, the market share of the Group's flue gas desulfurization and denitrification concession operation was 20.3% and 25.0%, respectively, and the Group continued to be the largest flue gas desulfurization and denitrification concession operator nationwide.

According to the Frost & Sullivan Report, the Group was the largest manufacturer of denitrification catalysts in the PRC in terms of the total production volume in 2016. The demand for plate-type denitrification catalysts is expected to maintain a steady growth in the future with the promotion of ultra-low emission refurbishment.

In 2016, the market demand for the environmental protection engineering for coal-fired power plants continued to grow and the market competition intensified gradually. The ultra-low emission engineering business boomed in 2016 when the market of environmental protection engineering for coal-fired power plants gradually shifted its focus from the construction of new desulfurization, denitrification and dust removal facilities to ultra-low emission refurbishment projects. Meanwhile, the commencement of ultra-low emission refurbishment for the iron, steel, petro-chemical and other industries presents new opportunities for environmental protection engineering.

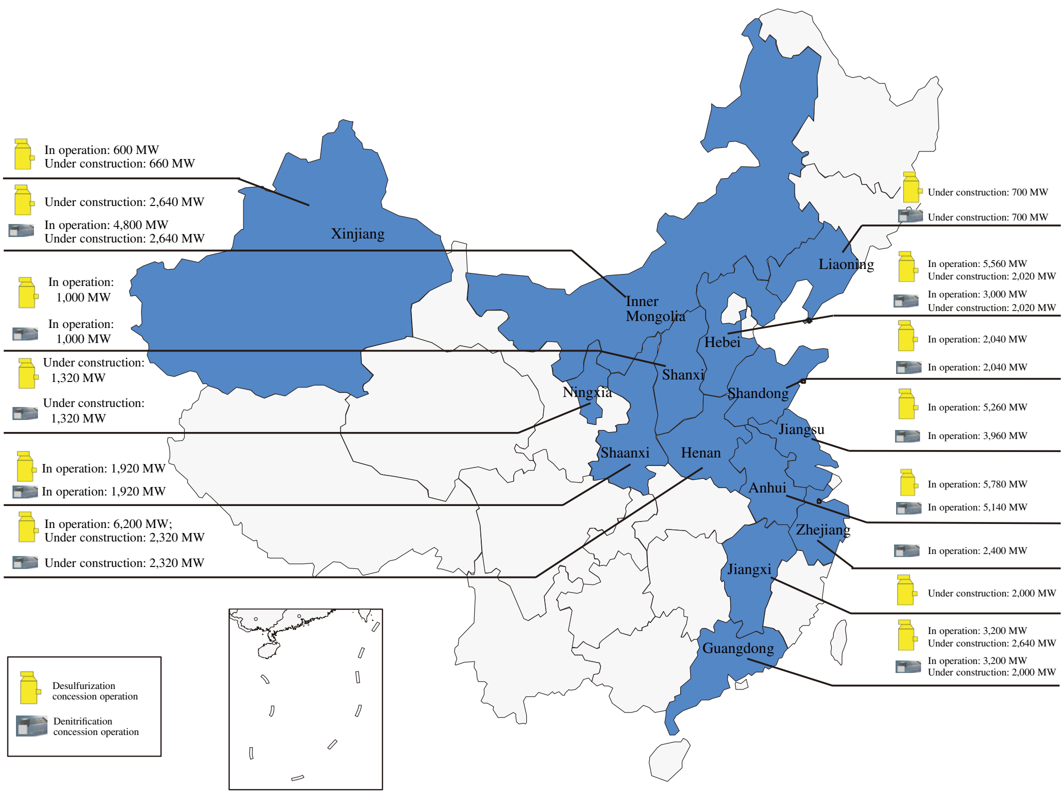
According to the Frost & Sullivan Report, as the awareness of energy conservation and environmental protection increases, the EMC market achieved remarkable development and recorded a total contract amount of approximately RMB3.5 billion for the entire market in 2016. The EMC market is expected to maintain a double-digit growth in the future. The market potential of water treatment for coal-fired power plants is promising. According to the Frost & Sullivan Report, by the end of 2016, the Group was one of the only four water treatment engineering companies in the PRC capable of undertaking water treatment island EPC engineering projects for coal-fired power plants.

II. BUSINESS OVERVIEW

1. Environmental Protection and Energy Conservation Solution Business

1.1 Environmental protection facility concession operation business

The Group's environmental protection facility concession operation business covers desulfurization and denitrification concession operations and its major assets are located at the areas with relatively robust economic development and strong demands for electricity. According to the Frost & Sullivan Report, in terms of the cumulative contracted capacity by the end of 2016, the Group continued to be the largest flue gas desulfurization and denitrification concession operator nationwide. The following map shows the geographical layout and cumulative capacity of the Group's concession operation as at 31 December 2016:



By 31 December 2016, the cumulative installed capacity in operation for desulfurization concession operations of the Group reached 33,560 MW and the cumulative installed capacity for desulfurization concession operation projects under construction reached 11,660 MW. The cumulative installed capacity in operation for denitrification concession operations reached 27,460 MW and the cumulative installed capacity for denitrification concession operation projects under construction reached 11,000 MW. The Group had one desulfurization entrusted operation project with an installed capacity of 1,920 MW.

The table below sets forth the status of the Group's desulfurization and denitrification concession operation projects in operation as at 31 December 2016:

Project location	Project name	Category of concession operation	Installed capacity (MW)
Guangdong	Chaozhou	Desulfurization and denitrification	3,200
Jiangsu	Lvsigang	Desulfurization and denitrification	2,640
	Nanjing	Desulfurization and denitrification	1,320
	Xutang	Desulfurization	1,300
Shandong	Huangdao	Desulfurization and denitrification	1,340
	Binzhou	Desulfurization and denitrification	700
Zhejiang	Wushashan	Denitrification	2,400
Henan	Xuchang	Desulfurization	2,020
	Sanmenxia	Desulfurization	1,900
	Anyang	Desulfurization	1,240
	Shouyangshan	Desulfurization	1,040
Hebei	Wangtan	Desulfurization and denitrification	1,200
	Zhangjiakou Thermal	Desulfurization and denitrification	600
	Jixian	Desulfurization and denitrification	1,200
	Zhangjiakou	Desulfurization	2,560
Anhui	Luohe	Desulfurization and denitrification	2,500
	Ma'anshan	Desulfurization and denitrification	1,320
	Hushan	Desulfurization and denitrification	1,320
	Tianjia'an	Desulfurization	640
Shaanxi	Binchang	Desulfurization and denitrification	1,260
	Baoji	Desulfurization and denitrification	660
Inner Mongolia	Tuoketuo	Denitrification	4,800
Jiangxi	Fuzhou	Desulfurization	2,000
Shanxi	Shentou	Desulfurization and denitrification	1,000
Xinjiang	Hutubi	Desulfurization	600

Projects under construction

The table below sets forth the status of the Group's desulfurization and denitrification concession operation projects under construction as at 31 December 2016:

Project location	Project name	Category of concession operation	Installed capacity (MW)
Guangdong	Leizhou	Desulfurization and denitrification	2,000
Henan	Sanmenxia Phase III	Desulfurization and denitrification	1,000
	Gongyi	Desulfurization and denitrification	1,320
Hebei	Yu County	Desulfurization and denitrification	1,320
	Tangshan Beijiao	Desulfurization and denitrification	700
Liaoning	Shendong	Desulfurization and denitrification	700
Inner Mongolia	Tuoketuo Phase V	Desulfurization and denitrification	1,320
	Xilinhot	Desulfurization and denitrification	1,320
Xinjiang	Wucaiwan	Desulfurization	660
Ningxia	Pingluo	Desulfurization and denitrification	1,320

1.2. *Denitrification catalysts business*

In 2016, both the production volume and the sales volume of the Group's denitrification catalysts business reached a historical high. According to the Frost & Sullivan Report, the Group continues to rank the first in the PRC in terms of the total production volume in 2016.

The following table sets forth the breakdown of the key figures of the Group's denitrification catalysts business in 2016:

(Unit: m^3)

Production volume	Sales volume	Delivery volume	Delivery volume to customers other than China Datang Group
34,312.3	36,372.1	35,358.1	12,944.7

1.3. *Environmental protection facilities engineering business*

In 2016, the Group continued to carry out its environmental protection facilities engineering business, including desulfurization, denitrification, dust removal, ultra-low emission, ash and slag handling and industrial site dust management. By 31 December 2016, the Group cumulatively undertook 487 environmental protection facilities engineering projects, including 57 ultra-low emission projects, and had completed 348 projects, including 28 ultra-low emission projects.

The following table sets forth the breakdown of the environmental protection facilities engineering business of the Group as at 31 December 2016:

Projects	Projects under construction		Projects put into operation in 2016		Total projects in operation	
	Number	*Capacity (MW)*	*Number*	*Capacity (MW)*	*Number*	*Capacity (MW)*
Desulfurization	20	16,980	8	7,620	66	43,450
Denitrification	14	13,260	3	1,920	99	62,560
Dust removal	20	18,440	6	5,450	56	36,240
Ultra-low emission	29	23,060	12	10,070	28	18,030
Ash and slag handling	31	16,580	2	400	93	32,028
Industrial site dust management	25	27,200	1	600	6	4,580

1.4. Water treatment business

In 2016, the Group's water treatment engineering projects, including water treatment engineering for coal-fired power generation enterprises, urban sewage treatment engineering and wastewater treatment engineering for coal chemical industry, and water treatment operation business made rapid progress. Particularly, the water treatment island model was successfully promoted among coal-fired power plants through the completion of the Datang Binzhou Power Plant Water Treatment Island Engineering Project (大唐濱州電廠水島工程項目).

In 2016, the Group entered into contracts for 13 new water treatment EPC projects, including five new water treatment island EPC projects, and had completed two projects. The Group successfully launched its first water treatment island build, own and operate model ("**BOO**") contract for Yan'an Thermal Power Plant in 2016. By 31 December 2016, the Group has three water treatment island operation projects under negotiation. In respect of urban sewage treatment, the Group entered into two contracts for the Xining No. 3 Sewage Treatment EPC Project (西寧第三污水處理廠污水EPC項目) and the Mengneng Jinshan Sewage Treatment EPC Project (蒙能金山污水EPC項目).

1.5. Energy conservation business

In 2016, the Group entered into five contracts for new energy conservation facility projects with one project completed. In respect of the EMC business, the Group made promising progress in 2016. The Group entered into four contracts for EMC projects with total investment of approximately RMB204.9 million. The number and total estimated of investment of the newly-entered projects increased 400.0% and 119.5%, respectively, as compared with that of 2015.

2. Renewable Energy Business

In 2016, the Group completed seven wind power plants engineering projects in total, with a cumulative installed capacity in operation and a cumulative contracted capacity of 1,615.8 MW and 1,962.1 MW, respectively. In 2016, the Group completed two photovoltaic power plant engineering projects in total, with a cumulative installed capacity in operation and a cumulative contracted capacity of 80.7 MW and 82.7 MW, respectively.

3. Thermal Power Plants Engineering General Contracting Business

The Group did not undertake any thermal power plants engineering general contracting business in 2016.

4. Other Businesses

The Group continued to carry out fiberglass chimney anti-corrosion projects and air-cooling system engineering general contracting projects in 2016.

5. Overseas Business

In 2016, the Group vigorously explored the overseas markets, seizing the opportunities brought by the policy of *Belt and Road Initiative*, and expanded its business to five countries overseas, covering various business including desulfurization EPC, water treatment engineering and procurement ("**EP**"), renewable energy EPC and dry slag extracting EP. By 31 December 2016, the Group had provided services or products for eight overseas projects in total and had entered into letters of intent for three projects. By 31 December 2016, the Desulfurization EPC Project for No. 1 Unit of Cuddalore in India has completed its trial operation for 336 hours and its reliability test for 72 hours; the PP9 Biomass Power Generation Station in Thailand has obtained installation completion certificate and unit transfer certificate.

6. Research and Development

In 2016, the Group continued to increase its investments in research and development and technological innovation and focused on the cultivation of the research and development and technological innovation team. The Group built up its core competitive strength and achieved outstanding results through continuous technological innovation and received six industrial or provincial or ministerial level technological awards. For example, the *Localization of the Imported Denitrification Catalysts Technology and its Application* (脫硝催化劑引進技術國產化及其應用研究) won the Eighth Chinese Technology Market Golden Bridge Award (第八屆中國技術市場金橋獎), and the *Research and Application of Synergy and Unification Removal of Multi-Pollutant in Coal-fired Power Plants* (燃煤電廠多污染物協同一體化脫除的研究與應用) won the Third Prize of Chinese Power and Science Technology Improvement Award (中國電力科學技術進步獎).

In 2016, the Group continued to focus on its proprietary development and innovation, commit substantial resources to research and development and persist in promoting the commercialization of technological achievements. The *Energy-saving Turbulence Pipe Gate High-efficient Desulfurization Technology* (節能型湍流管柵高效脫硫技術) and *Advanced Coal-fired Flue Gas SNCR Denitrification Technology* (增強型燃煤煙氣SNCR脫硝技術) independently developed by the Group were assessed to be of international and domestic leading level, respectively, by the Chinese Institute of Electrical Engineering in 2016. They are widely used in the Group's desulfurization and denitrification concession operations and engineering business. As at 31 December 2016, the Group had 492 patents and 43 software copyrights.

In 2016, the Group led the drafting of one industry standard and participated in the drafting of one international standard and four national or industry standards. In addition, one international standard and one national standard led by the Group and four national or industry standards participated by the Group were promulgated and implemented in 2016. In particular, the implementation of IEEE Standards on *Power Plant De-Nitrogen Oxide (DeNox) Plate-Type Catalyst* effectively opens up an uncharted territory in international standards for such products.

III. MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL POSITION AND OPERATING RESULTS

There are inter-segment sales among the Group's segments and sub-segments, and accordingly the Group records intra-segment elimination and inter-segment elimination among these segments/sub-segments for the relevant revenue and cost of sales. In this results announcement, unless otherwise specified herein, (i) all discussion about total revenue, total gross profit and overall gross profit margin are based on the amounts after all intra- and inter-segment elimination among the segments/sub-segments (being the figures reflected in our consolidated statement of profit or loss and other comprehensive income), and (ii) all discussion about the revenue, gross profit and gross profit margin of business segments and sub-segments are based on the amounts before any intra- or inter-segment elimination of such segment or sub-segment.

1. Overview

The Group's revenue decreased by 5.3% to RMB8,156.5 million in 2016 as compared with RMB8,609.6 million in 2015. The Group's profit for 2016 amounted to RMB1,084.7 million, representing an increase of RMB334.4 million as compared with RMB750.3 million in 2015. Profit attributable to the owners of the parent amounted to RMB1,020.6 million. As at 31 December 2016, the Group's cash and cash equivalents increased by 108.6% to RMB3,012.6 million as compared with RMB1,444.0 million as at 31 December 2015. The Group's total assets increased by 28.3% to RMB17,935.5 million as at 31 December 2016 as compared with RMB13,978.8 million as at 31 December 2015. The Group's total liabilities increased by 11.3% to RMB11,520.2 million as at 31 December 2016 as compared with RMB10,351.8 million as at 31 December 2015. The Group's return on total assets for 2016 was 6.8%, as compared with 6.2% in 2015.

2. Results of Operations

2.1. Revenue

The Group's revenue decreased by 5.3% to RMB8,156.5 million in 2016 as compared with RMB8,609.6 million in 2015, primarily due to a decrease of RMB754.6 million in renewable energy engineering business, because the Group placed increasing weights on its operation business including, among others, desulfurization and denitrification concession operations and water treatment operation, during the process of adjusting its business structure, which was partially offset by an increase, before intra-segment and inter-segment elimination of segments or sub-segments, of RMB529.1 million in environmental protection and energy conservation solutions business, primarily as of a result of an increase of revenue recognized from the concession operation projects that the Group acquired at the end of 2015.

2.2. Cost of sales

The Group's cost of sales decreased by 10.3% to RMB6,483.2 million in 2016 as compared with RMB7,229.5 million in 2015. The decrease of the Group's cost of sales was generally in line with the decrease in its total revenue.

2.3. Selling and distribution expenses

The Group's selling and distribution expenses increased by 22.7% to RMB47.0 million in 2016 as compared with RMB38.3 million in 2015, mainly due to an increase of RMB7.2 million in its sales service fees as the Group had been actively expanding its overseas business.

2.4. Administrative expenses

The Group's administrative expenses remained stable with a slight decrease of 2.7% to RMB282.1 million in 2016 as compared with RMB289.9 million in 2015.

2.5. Other income and gains

The Group's other income and gains increased by 60.1% to RMB113.7 million in 2016 as compared with RMB71.0 million in 2015, mainly due to an increase of RMB36.9 million in exchange gain primarily because the Group received RMB24.0 million of exchange gain arising from the conversion of proceeds of its initial public offering and an increase of RMB51.4 million in government subsidies in environmental protection facilities concession operation business.

2.6. Finance costs

The Group's finance costs decreased by 16.0% to RMB193.1 million in 2016 as compared with RMB230.0 million in 2015, primarily due to decreasing interest rates as a result of the adjustment of the Group's loan profolio.

2.7. Profit before tax

As a result of the foregoing factors, the Group's profit before tax increased by 41.7% to RMB1,264.9 million in 2016 as compared with RMB892.8 million in 2015.

2.8. Income tax expense

The Group's income tax expense was RMB180.2 million in 2016, representing an increase of 26.5% from RMB142.5 million in 2015. This was mainly due to the increase of profit before tax.

2.9. Profit for the year

The Group's profit for the year increased by RMB334.4 million from RMB750.3 million in 2015 to RMB1,084.7 million in 2016. For the year ended 31 December 2016, the Group's profit for the year as a percentage of its total revenue increased to 13.3% as compared with 8.7% in 2015.

2.10. Profit attributable to the owners of the parent

The profit attributable to the owners of the parent increased by RMB314.8 million to RMB1,020.6 million in 2016 as compared with RMB705.8 million in 2015.

2.11. Profit attributable to non-controlling interests

The profit attributable to non-controlling interests of the Group increased by 43.9% to RMB64.2 million in 2016 as compared with RMB44.6 million in 2015.

3. Results on Business Segments

The following table sets forth a breakdown of the Group's revenue by segment/sub-segment and each segment/sub-segment as a percentage of total revenue for the years ended 31 December 2016 and 2015, as well as the percentage of change:

	Year ended 31 December				
	2016		2015		
	Revenue *RMB'000*	**Percentage of total revenue before elimination[(1)]** %	Revenue *RMB'000*	Percentage of total revenue before elimination[(1)] %	Change %
Environmental Protection and Energy Conservation Solutions:					
Environmental protection facilities concession operation	**2,478,340**	**29.9**	1,881,644	21.4	31.7
Denitrification catalysts	**505,096**	**6.1**	506,051	5.8	(0.2)
Environmental protection facilities engineering	**2,802,300**	**33.8**	2,935,481	33.5	(4.5)
Water treatment business	**275,064**	**3.3**	191,790	2.2	43.4
Energy conservation business	**63,249**	**0.8**	79,956	0.9	(20.9)
Total revenue of environmental protection and energy conservation solutions before elimination	**6,124,049**	**73.9**	5,594,923	63.8	9.5
Intra-segment elimination[(2)]	**(70,841)**		(129,376)		
Total revenue of environmental protection and energy conservation solutions after intra-segment elimination	**6,053,208**		5,465,547		10.8
Inter-segment elimination[(3)]	**(44,216)**		(11,734)		
External revenue of environmental protection and energy conservation solutions	**6,008,992**		5,453,813		10.2
Renewable Energy Engineering:					
Total revenue of renewable energy engineering business	**1,919,564**	**23.2**	2,674,166	30.5	(28.2)
Inter-segment elimination	**–**		–		
External revenue of renewable energy engineering business	**1,919,564**		2,674,166		(28.2)

	Year ended 31 December				
	2016		2015		
	Revenue *RMB'000*	**Percentage of total revenue before elimination[(1)]** *%*	Revenue *RMB'000*	Percentage of total revenue before elimination[(1)] *%*	Change *%*
Thermal power plants engineering general contracting:					
Total revenue of thermal power plants engineering general contracting	**–**	**–**	152,973	1.7	(100.0)
Inter-segment elimination[(4)]	**–**		(5,435)		
External revenue of thermal power plants engineering general contracting	**–**		147,538		(100.0)
Other businesses:					
Total revenue of other businesses	**241,941**	**2.9**	351,686	4.0	(31.2)
Inter-segment elimination[(5)]	**(14,028)**		(17,615)		
External revenue of other businesses	**227,913**		334,071		(31.8)
Total revenue before elimination[(6)]	**8,285,554**	**100.0**	8,773,748	100.0	(5.6)
Total intra- and inter-segment elimination[(7)]	**(129,085)**		(164,160)		
Total revenue	**8,156,469**		8,609,588		(5.3)

Notes:

(1) Represents the revenue of each business segment or sub-segment (before any intra- or inter-segment elimination) as a percentage of the total revenue before any intra- or inter-segment elimination.

(2) Intra-segment elimination of revenue from sub-segments under environmental protection and energy conservation solutions segment mainly arises from the intra-segment sales between denitrification catalysts sub-segment to denitrification facilities engineering sub-segment and environmental protection facilities concession operation, respectively.

(3) Inter-segment elimination of revenue from environmental protection and energy conservation solutions segment mainly arises from the inter-segment sales to other business segments made by the sub-segments within environmental protection and energy conservation solutions segment, including the inter-segment sales from denitrification facilities engineering sub-segment to thermal power plants engineering general contracting segment, the inter-segment sales from dust removal facilities engineering sub-segment to thermal power plants engineering general contracting segment, the inter-segment sales from water treatment business sub-segment to thermal power plants engineering general contracting segment and the inter-segment sales from energy conservation business sub-segment to other business segment.

(4) Inter-segment elimination of revenue from thermal power plants engineering general contacting segment mainly arises from the inter-segment sales between thermal power plants engineering general contracting segment and other businesses segment.

(5) Inter-segment elimination of revenue from other businesses segment mainly arises from the inter-segment sales between other businesses segment and environmental protection and energy conservation solutions segment and thermal power plants engineering general contracting segment, respectively.

(6) Represent the aggregate amount of the revenue of all segments/sub-segments before any intra- or inter-segment elimination.

(7) Represent the aggregate amount of all intra- and inter-segment elimination.

The following table sets forth a breakdown of the Group's gross profit by segment/sub-segment and gross profit margin of each business segment/ sub-segment for the years ended 31 December 2016 and 2015, as well as the percentage of change in gross profit:

	Year ended 31 December				
	2016		2015		
	Gross profit[(1)] *RMB'000*	**Gross profit margin**[(2)] %	Gross profit[(1)] *RMB'000*	Gross profit margin[(2)] %	Change of gross profit %
Environmental Protection and Energy Conservation Solutions:					
Environmental protection facilities concession operation	**878,663**	**35.5**	693,367	36.8	26.7
Denitrification catalysts	**231,144**	**45.8**	252,925	50.0	(8.6)
Environmental protection facilities engineering	**446,502**	**15.9**	389,822	13.3	14.5
Water treatment business	**29,300**	**10.7**	(4,080)	(2.1)	(818.1)
Energy conservation business	**8,786**	**13.9**	13,534	16.9	(35.1)
Total gross profit of environmental protection and energy conservation solutions	**1,594,395**	**26.0**	1,345,568	24.0	18.5
Total gross profit of renewable energy engineering business	**101,337**	**5.3**	17,665	0.7	473.7
Total gross profit of thermal power plants engineering general contracting	**–**	**–**	1,767	1.2	(100.0)
Total gross profit of other businesses	**20,262**	**8.4**	16,610	4.7	(22.0)
Total gross profit and overall gross profit margin[(3)]	**1,673,312**	**20.5**	1,380,054	16.0	21.2

Notes:

(1) Calculated based on the revenue of each segment or sub-segment (before any intra- or inter-segment elimination) minus the cost of sales of such segment or sub-segment (before any intra- or inter-segment elimination).

(2) Calculated based on the gross profit of each segment or sub-segment calculated according to note (1) divided by the revenue of such segment or sub-segment (before any intra- or inter-segment elimination).

(3) Total gross profit equals total revenue (being the revenue reflected on our consolidated statement of profit or loss and other comprehensive income) minus total cost of sales (being the cost of sales reflected on our consolidated statement of profit or loss and other comprehensive income). Overall gross profit margin equals total gross profit divided by total revenue.

4. Cash Flow

As at 31 December 2016, the Group's cash and cash equivalents increased by 108.6% to RMB3,012.6 million as compared with RMB1,444.0 million as at 31 December 2015. Such increase was mainly attributable to the net proceeds received by the Company from its initial public offering.

5. Working Capital

As at 31 December 2016, the Group's net current assets increased by 221.5% to RMB2,993.7 million as compared with RMB931.1 million as at 31 December 2015, primarily due to (i) an increase of 28.1% in the Group's trade and bills receivables to RMB6,375.7 million as at 31 December 2016 as compared with RMB4,977.5 million as at 31 December 2015; (ii) an increase of 19.4% in the Group's prepayments, deposits and other receivables to RMB1,235.1 million as at 31 December 2016 as compared with RMB1,034.5 million as at 31 December 2015; and (iii) an increase of 108.6% in the Group's cash and cash equivalents to RMB3,012.6 million as at 31 December 2016 as compared with RMB1,444.0 million as at 31 December 2015, which was partially offset by an increase of 13.0% in the Group's trade and bills payables to RMB5,766.7 million as at 31 December 2016 as compared with RMB5,101.9 million as at 31 December 2015.

6. Indebtedness

As at 31 December 2016, the Group's borrowings increased by 5.6% to RMB4,632.2 million as compared with RMB4,387.3 million as at 31 December 2015.

7. Capital Expenditure

The Group's capital expenditure decreased by 62.5% to RMB1,162.0 million in 2016 as compared with RMB3,098.1 million in 2015. Capital expenditure mainly comprises construction costs including acquisition or construction of property, plant and equipment, land use rights and intangible assets.

8. Financial Ratios

The following tables set forth certain of our financial ratios as at the dates and for the periods indicated:

	As at 31 December	
	2016	2015
Current ratio	**137.3%**	113.4%
Quick ratio	**135.7%**	111.2%
Liabilities to assets ratio	**64.2%**	74.1%
Leverage ratio	**25.2%**	81.2%

	Year ended 31 December	
	2016	2015
Return on total assets	**6.8%**	6.2%
Return on equity	**21.6%**	28.2%

9. Significant Investment

For the year ended 31 December 2016, the Group made no significant investment.

10. Material Acquisition and Disposal

For the year ended 31 December 2016, the Group had no material acquisition or disposal.

11. Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

IV. RISK FACTORS AND RISK MANAGEMENT

Risks on environmental protection and energy conservation policies:

The Group provides substantially all of its products and services in the PRC, and the development of its business is greatly dependent on the environmental protection policies of the PRC. Environmental protection industry is one of the major industries that benefit from the constant support of the PRC governments. The market demand for the Group's environmental protection and energy conservation products and services and the revenue generated therefrom are directly affected by the environmental protection policies of the PRC. However, there is no assurance that such policies will continue to be available to the Group or there will be no adverse change. If there is any adverse change, it may result in a material and adverse effect on the business prospects, results of operations and financial condition of the Group. The management of the Group is of the view that, given the severity of pollution in the PRC, it is unlikely for the PRC governments to revise such environmental protection policies to an adverse effect or to withdraw any resources invested in the environmental protection industry. Moreover, the Group, as a trendsetter and leader of the environmental protection and energy conservation for China's electric power industry, has participated in the formulation of various industrial policies and standards, which allows it to catch the latest industry trends and respond in a timely fashion.

Risks on connected transactions with China Datang Group:

The Group has been conducting various transactions with China Datang Group, and will continue to enter into more such transactions in the future. For the year ended 31 December 2016, the total value of products and services provided by the Group to China Datang Group (other than concession operations) was approximately RMB3,739.8 million, representing approximately 45.9% of the total revenue of the Group. For the year ended 31 December 2016, the total value of the services provided by the Group to China Datang Group under the concession operations (desulfurization and denitrification) was approximately RMB2,463.9 million, representing approximately 30.2% of the total revenue of the Group. The Group has been actively expanding its client base, for example, during 2016, the Group entered into contracts in the amount of RMB3.1 billion with clients other than China Datang Group with an increase of 229.0% as compared with that of 2015 and the Group also made remarkable progress in expanding its overseas business.

Liquidity risks:

Although the Group had positive operating cash flows for the year ended 31 December 2016, it cannot assure that its operating cash flow for any future period will be positive. The Group's ability to generate adequate cash inflows from operating activities in the future will depend in large part on project schedule and billing arrangement, its ability to collect receivables from its customers in a timely manner and the credit terms it can obtain. If the Group is not able to generate sufficient cash flows from its operations or obtain sufficient financing to support its business operation, the Group's growth prospects may be materially and adversely affected. The Group plans to implement diversified measures to collect receivables in order to improve operating cash flow. In addition, the Group has been proactively seeking finance to support the development and expansion of its business. As at 31 December 2016, the Group had available bank facilities of RMB12.0 billion.

Industry risks:

The Group's business primarily focuses on the environmental protection and energy conservation for coal-fired power plants, the market demand for its business relies heavily on the growth rate of the coal-fired power generation output in the PRC. In particular, the revenue generated from concession operations will be directly affected by the power generation output of coal-fired power plants. As pollution has become an increasingly severe environmental issue in the PRC, the PRC government has shown considerable concern for the adjustment to the national energy structure and development. Therefore, there can be no assurance that coal-fired power generation output in the PRC will continue to grow at the current pace. If the increase of coal-fired power generation output in the PRC slows down, it may result in a decrease of utilization hours of coal-fired power generation units, or a lower demand for the Group's products and services, which in turn will materially and adversely affect our business prospects, results of operations and financial position. The management of the Group is of the view that, in terms of the power generation portfolio in the PRC, coal-fired power generation still dominates the market. In addition, the vast majority of the Group's concession operations locate in coastal areas or economically developed areas, where the utilization hours of coal-fired power generation are higher than the average level nationwide. The Group plans to actively explore clients in the iron and steel, cement and petro-chemical industries.

Risks on overseas business:

The Group is aggressively developing its overseas business, especially in the *Belt and Road Initiative* countries. The Group's global business expansion may be hindered by risks such as: lack of availability of overseas financing, possible difficulties in the management of overseas personnel and business operations, lack of understanding of the local business environment, financial and management system or legal system, volatility in currency exchange rates, cultural differences, changes in political, regulatory or economic environments in the foreign countries or other regions, as well as the risk of barriers. If the Group fails to manage the above risks effectively, its overseas expansion may be hindered, which may in turn result in a material and adverse effect on its business prospects, results of operations and financial condition. The management of the Group is of the view that, the PRC governments have been actively establishing friendly diplomatic relations with the *Belt and Road Initiative* countries and improving the overseas investment atmosphere. The Group has extensive experience in project management in certain countries, for instance India and Thailand, which can serve as examples for its future overseas development. Moreover, the Group has established rather mature risk management and internal control systems to mitigate risks on overseas business to the greatest extent possible.

V. OUTLOOK ON THE GROUP'S FUTURE DEVELOPMENT

Looking forward to 2017, the Group will be faced with both opportunities and challenges.

The Group will enjoy certain advantages. On one hand, Mr. Li Keqiang, the Premier of the State Council of the PRC, has clearly highlighted the importance to cultivate energy conservation and environmental protection industry to become one of the pillar industries of the national economy. A series of supporting policies and regulations have been consecutively promulgated to support emerging business such as water treatment, energy conservation, soil treatment, indicating promising future prospects. On the other hand, as the *Paris Agreement* (《巴黎協定》) has officially come into effect and increasing weights have been placed on the *Belt and Road Initiative*, there will be huge potential for the development of the environmental protection and energy conservation markets in the *Belt and Road Initiative* countries, which will bring enormous opportunities for a leapfrog development of the Group.

Challenges will also present. On one hand, if the utilization hours of coal-fired power generation units continue to decrease, the profitability of the Group's concession operation may be adversely affected. On the other hand, if the price of coal continues to maintain at a high level, it will hinder the operation of coal-fired power plants who are the major customers of the Group, and may in turn indirectly affect the business operations of the Group.

Main Tasks in 2017

Based on a comprehensive understanding of the situations, the Group's main tasks for 2017 are as follows:

1. ***Determined to explore overseas markets of environmental protection and energy conservation***

   By leveraging its experience in the environmental protection and energy conservation business in countries such as India and Thailand, the Group will capture the market opportunities emerging from the *Paris Agreement* and the *Belt and Road Initiative*, relying on its management experience, reserve of technologies and comprehensive capability in the environmental protection and energy conservation industry as well as its first-mover advantage in the overseas markets. The Group will continue to devote itself in expanding the market of environmental protection and energy conservation business in such *Belt and Road Initiative* countries and promoting its advantageous business, such as concession operation, denitrification catalysts and environmental protection facilities engineering, to overseas markets, aiming to achieve a leapfrog development of the Group's business.

2. ***Enhancing the management and profitability of the Group's business with competitive edges***

   The Group will continue to expand the scale of its business with competitive edges, such as concession operation, denitrification catalysts and environmental protection facilities engineering, and increase the market presence to keep enhancing the management and profitability of such business. The Group will continue to strengthen and optimize its concession operation business following the "*four first-classes*" standards and further improve its professionalized management in order to reduce cost and improve efficiency. For catalyst business, the Group will accelerate its regeneration and post treatment business, develop its big data center and establish an industry value chain covering the full life-cycle management services and the entire denitrification catalyst business. For environmental protection facilities engineering business, the Group will commence optimized design and proposal benchmarking and reinforce cost control to efficiently reduce the cost of construction of engineering projects.

3. ***Vigorously developing emerging environmental protection and energy conservation business***

   The Group will actively seize the opportunities arising from the implementation of various policies and regulations, including the *Soil Pollution Prevention Action Plan* (《土壤污染防治行動計劃》), the *Law on Water Pollution Prevention and Control (Amendment Draft)* (《水污染防治法》(修訂草案)), the *Law on Environmental Protection Tax* (《環境保護稅法》) and the *13th Five-Year Comprehensive Action Plan for Energy Conservation and Emission Reduction* (《「十三五」節能減排綜合工作方案》). The Group will foster its core technologies and products in respective fields, innovate business models and development mechanisms, and promote the development of business, such as water treatment operation, EMC and environmental remediation.

4. ***Continuing to invest in research and development and enhancing the overall capability of scientific and technological innovation***

   Deeply believing in the concept that innovation drives development, the Group will accelerate the establishment of its innovative platform for technology, and continue to construct various workstations, technology centers and pilot bases. The Group will also introduce the system of chief expert and commit more resources to the training and development of talents, aiming to develop their full potential and place them in suitable positions. The Group will stay abreast of the latest technology trends in order to invest extensively in the research and development and commercialization of such advanced technologies in the industry.

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

From 15 November 2016 (the "**Listing Date**"), the date of listing of the H shares of the Company on the main board of the Hong Kong Stock Exchange, to 31 December 2016, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

Special Dividend

According to the resolutions of the shareholders of the Company (the "**Shareholder(s)**") passed on 21 August 2015 and 17 August 2016, the Company declared special dividends representing all of the undistributed distributable profit of the Group accrued up to 31 March 2016 to our existing Shareholders. Such special dividend will be the lower of the retained profits of the Group attributable to the owners of the Company (after deducting the provisions of statutory and discretionary reserve funds made by the Company and its subsidiaries) as at 31 March 2016 determined in accordance with PRC GAAP and IFRSs, after deducting the RMB100.0 million dividend for the year ended 31 December 2015, which was declared in April 2016 and paid in June 2016. According to our audited consolidated financial statements for the three months ended 31 March 2016 previously prepared by the Company in accordance with the IFRSs, we currently estimate such special dividend to be approximately RMB1,000.0 million, after deducting the RMB100.0 million dividend for the year ended 31 December 2015 paid in June 2016 as described above. We will arrange a special audit for the three months ended 31 March 2016 to be conducted by our independent auditor to determine the retained profits of the Group accrued up to 31 March 2016 under the PRC GAAP. The actual amount of such special dividend will be ascertained upon the completion of such special audit. We intend to pay such special dividend within 12 months after the Listing Date with our then available cash and cash equivalents on hand and will make an announcement regarding the actual amount of such special dividend before we pay it. Shareholders of H Shares are not entitled to such special dividend.

Proposed 2016 Final Dividend

According to the resolutions of the Board passed at the 17th meeting of the first session of the Board on 24 March 2017, the Board proposed to distribute the final dividend for the period from 1 April 2016 to 31 December 2016 of RMB0.125 per share of the Company (the "**Shares**") (before tax) (the "**Proposed 2016 Final Dividend**") in cash to the Shareholders. If the proposal is approved by the Shareholders at the 2016 annual general meeting of the Company (the "**2016 AGM**") to be held on 16 June 2017, the Proposed 2016 Final Dividend is expected to be distributed on or before 9 August 2017 to the Shareholders whose names appear on the register of members of the Company on 27 June 2017. The Proposed 2016 Final Dividend to be distributed will be denominated and announced in RMB, of which dividends on domestic Shares will be paid in RMB whereas dividends on H Shares will be paid in Hong Kong dollars (the exchange rate of RMB to Hong Kong dollars will be exchanged at the average exchange rate as announced by the People's Bank of China for a week prior to the date of the 2016 AGM).

CLOSURE OF REGISTER OF MEMBERS

2016 AGM

The 2016 AGM will be convened at 2:00 p.m. on Friday, 16 June 2017 at No. 120, Zizhuyuan Road, Haidian District, Beijing, the PRC. The notice convening the 2016 AGM will be despatched in due course.

In order to ascertain the entitlements of the Shareholders to attend the 2016 AGM, the register of members of the Company will be closed from Wednesday, 17 May 2017 to Friday, 16 June 2017 (both days inclusive), during which period no transfer of the Shares will be effected. To be eligible to attend and vote at the 2016 AGM, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares), or the Company's board office in the PRC at No. 120, Zizhuyuan Road, Haidian District, Beijing, the PRC, 100097 (for holders of domestic Shares), no later than 4:30 p.m. on Tuesday, 16 May 2017.

Proposed 2016 Final Dividend

The Board has proposed to distribute the Proposed 2016 Final Dividend to the Shareholders whose names appear on the register of members of the Company on Tuesday, 27 June 2017. The above dividend is subject to the approval by Shareholders at the 2016 AGM to be held on Friday, 16 June 2017.

The Proposed 2016 Final Dividend is expected to be distributed on or before Wednesday, 9 August 2017. In order to ascertain the entitlements of the Shareholders to receive the Proposed 2016 Final Dividend, the register of members of the Company will be closed from Thursday, 22 June 2017 to Tuesday, 27 June 2017 (both days inclusive), during which period no transfer of Shares will be effected. To be eligible to receive the Proposed 2016 Final Dividend, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares), or the Company's board office in the PRC at No. 120, Zizhuyuan Road, Haidian District, Beijing, the PRC, 100097 (for holders of domestic Shares), no later than 4:30 p.m. on Wednesday, 21 June 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE SET OUT IN APPENDIX 14 TO THE LISTING RULES

The Company has always been committed to improving corporate governance since its establishment. According to provisions of the Corporate Governance Code (the "**Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"), it has established a modern corporate governance structure comprising a number of independently operated bodies including the general meetings, the Board, the supervisory committee and the senior management of the Company in order to provide an effective check and balance. The Company has also adopted the Code as its own corporate governance practices.

From the Listing Date to the date of this results announcement, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing his duty. The Company has purchased liability insurance for the Directors.

From the Listing Date to the date of this results announcement, the Company has complied with the principles and code provisions contained in the Code. Details of the corporate governance of the Company are set out in the 2016 annual report of the Company (the "**2016 Annual Report**") which will be published in due course.

COMPLIANCE WITH THE MODEL CODE FOR DEALING IN SECURITIES OF THE COMPANY BY ITS DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in the securities of the Company by its Directors, supervisors and relevant employees of the Company (as defined in the Model Code). According to the specific enquiries of all Directors and supervisors of the Company, each Director and supervisor of the Company confirmed that he had strictly complied with the standard set out in the Model Code during the period from the Listing Date to 31 December 2016. The Board will examine the corporate governance practices and operation of the Group from time to time to ensure that the Group is in compliance with relevant requirements under the Listing Rules and that the Shareholders' interests are safeguarded.

SCOPE OF WORK ON THE RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2016 as set out in this results announcement have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this results announcement.

AUDIT COMMITTEE

The Group's 2016 annual results and the consolidated financial statements for the year ended 31 December 2016 prepared in accordance with the IFRSs have been reviewed by the audit committee of the Company.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering and partial exercise of the over-allotment option, after deducting the underwriting fees and relevant expenses, amounted to approximately HK$2,032.3 million, which will be used on the ways stated in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 3 November 2016.

SIGNIFICANT SUBSEQUENT EVENT

The significant subsequent event occurred after 31 December 2016 is set out in note 13 to the financial statements on page 34 of this results announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be available on the websites of the Hong Kong Stock Exchange (**http://www.hkexnews.hk**) and the Company (**http://www.dteg.com.cn**).

The Company will dispatch in due course to Shareholders the 2016 Annual Report containing all the information as required by the Listing Rules, and publish it on the websites of the Company and the Hong Kong Stock Exchange.

By order of the Board
Datang Environment Industry Group Co., Ltd.*
JIN Yaohua
Chairman

Beijing, PRC, 24 March 2017

As of the date of this announcement, the non-executive Directors are Mr. Jin Yaohua, Mr. Liu Chuandong, Mr. Liu Guangming and Mr. Liang Yongpan, the executive Directors are Mr. Deng Xiandong and Mr. Lu Shengli, and the independent non-executive Directors are Mr. Ye Xiang, Mr. Mao Zhuanjian and Mr. Gao Jiaxiang.

* *For identification purposes only*