DCWT 滇池水务

KUNMING DIANCHI WATER TREATMENT CO.,LTD

Kunming Dianchi Water Treatment Co., Ltd.

昆明滇池水務股份有限公司

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

Stock Code: 3768

臻於至善 源遠流長

CONSUMMATION AND SUSTAINABILITY

2016 ANNUAL REPORT


昆明滇池水务股份有限公司
KUNMING DIANCHI WATER TREATMENT CO.,LTD

Contents

CHAPTER ONE CORPORATE INFORMATION

REGISTERED NAME OF THE COMPANY
昆明滇池水務股份有限公司

ENGLISH NAME OF THE COMPANY
Kunming Dianchi Water Treatment Co., Ltd.

REGISTERED OFFICE AND HEADQUARTERS IN THE PRC
Wastewater Treatment Plant No. 7
Kunming Dianchi Tourist Resort
Yunnan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

WEBSITE OF THE COMPANY
www.kmdcwt.com

LEGAL REPRESENTATIVE OF THE COMPANY
Ms. Guo Yumei

AUTHORIZED REPRESENTATIVES
Mr. Chiu Ming King
Mr. Luo Yun

JOINT COMPANY SECRETARIES
Mr. Yang Yang
Mr. Chiu Ming King FCIS, FCS

INDEPENDENT AUDITOR
PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

HONG KONG LEGAL ADVISER TO THE COMPANY
Latham & Watkins
18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

PRC LEGAL ADVISER TO OF THE COMPANY
Yunnan Beichuan Law Firm
Room 101, Unit 1, Building 204
Jinxing District
Panlong District
Kunming, Yunnan Province
PRC

H SHARE REGISTRAR
Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

BOARD OF DIRECTORS

Executive Directors
Ms. Guo Yumei *(Chairperson)*
Mr. Luo Yun

Non-executive Directors
Mr. Zeng Feng
Ms. Song Hong

Independent Non-executive Directors
Mr. Wong Man Chung Francis
Mr. Yin Xiaobing
Mr. He Xifeng

CORPORATE INFORMATION

BOARD COMMITTEES

Audit committee

Mr. Wong Man Chung Francis *(Chairperson)*
Mr. Zeng Feng
Mr. Yin Xiaobing

Remuneration and appraisal committee

Mr. He Xifeng *(Chairperson)*
Ms. Guo Yumei
Mr. Yin Xiaobing

Nomination committee

Mr. Yin Xiaobing *(Chairperson)*
Ms. Guo Yumei
Mr. He Xifeng

Strategy and investment decision Committee

Ms. Guo Yumei *(Chairperson)*
Mr. Luo Yun
Mr. Yin Xiaobing

BOARD OF SUPERVISORS

Mr. Na Zhiqiang *(Chairperson)*
Mr. Yao Jianhua
Mr. Shao Wei

PRINCIPAL BANKS

China Everbright Bank
Kunming Dianchi Road Sub-branch
China Everbright Bank
Project & Design Unit Building
No. 1177 Dianchi Road
Xishan District, Kunming
Yunnan Province
PRC

China Minsheng Bank
Kunming Dianchi Road Sub-branch
China Minsheng Bank
No. 331 Huancheng South Road
Kunming
Yunnan Province
PRC

Ping An Bank
Kunming Chuncheng Sub-branch
1st Floor, Baifuqi Commercial Plaza
No. 32 Wujing Road
Guandu District, Kunming
Yunnan Province
PRC

Bank of Communications
Yunnan Branch
1st Floor Counter
Bank of Communications Building
No. 397 Baita Road
Panlong District, Kunming
Yunnan Province
PRC

China Merchants Bank
Kunming Shijicheng Sub-branch
1A and 1B, 1st Floor
Century Golden Recourses
International Business Center Tower 2
Kunming
Yunnan Province
PRC

CHAPTER TWO LETTER FROM THE CHAIRPERSON

Our honourable shareholders:

Thanks to the care and support given by all of our fellow shareholders and new shareholders, KUNMING DIANCHI WATER TREATMENT CO., LTD. (昆明滇池水務股份有限公司) (hereinafter referred to as "Dianchi Water" or the "**Company**") is a leader in the wastewater treatment and reclaimed water industries in Yunnan Province, China and one of the major enterprises under the State's strategic objective for pollution treatment in Dianchi. In April 2017, Dianchi Water was listed on the main board of the Hong Kong Stock Exchange. By virtue of Hong Kong, a famous port of free trade and an international financial centre, the Company has optimized its financing capability core competitiveness; has speeded up the consolidation of market resources; has established industrial union for investment and collaboration with enterprises; has expanded the global business market and has enhanced the corporate value, for purposes of making return to its shareholders, customers and the community by the steady and rapid development.

2016 has marked the beginning of the state's 13th Five-year Plan. Dianchi Water has been firmly grasping (1) the state's strategic policies, namely the 13th Five-Year Eco-Environmental Protection Planning (《"十三五"生態環境保護規劃》), the Action Plan for Prevention and Treatment of Water Pollution (《水污染防治行動計劃》), and "One Belt One Road" ("一帶一路"), and (2) the golden opportunity of building ecological civilization in Yunnan and China. Besides, Dianchi Water stood firm at its own creation and renovation and absorbed new concepts, and combined its own creation with such new concepts. Pursuant to the annual operating mission and objectives, Dianchi Water continued to enhance the capability in management and control as well as talent optimization. It also speeded up the integration of domestic and foreign advanced technology and market resources. It endeavoured great efforts to facilitate the business development and strategic plans of the Company.

For the year ended December 31, 2016, the revenue of the Company amounted to RMB914.9 million (for the year ended December 31, 2015, the revenue was RMB825.1 million), with a year-on-year growth of 10.9%. For the year ended December 31, 2016, the gross profit amounted to RMB425.5 million (for the year ended December 31, 2015, the revenue amounted to RMB378.1 million), with a year-on-year growth of 12.5%. With the introduction of and reserve of internationally advanced technology for environmental treatment, this has laid a sound and solid foundation for the Company to develop High-quality Eco-supplementary Water (高品質生態補水), treatment of slight water pollution in counties and treatment of industrial wastewater. the Company has completed the investment in the wastewater treatment plant project in Ziyun County, Guizhou Province (貴州省紫雲縣污水處理廠項目) (TOT) and in the second running water project in Shuangjiang County of Linchang City, Yunnan Province (雲南省臨滄市雙江縣第二自來水項目) (BOT). In addition, the Company has established Dianchi Water (Laos) Wholly-owned Limited Company (滇池水務(老撾)獨資有限公司).

LETTER FROM THE CHAIRPERSON

With the Company's advantages in its excellent management and technical teams, as well as its advantage in industry competition, Dianchi Water will continue to enhance its service quality and standard for purposes of providing the environmental protection and treatment, ecological civilization and construction, and social and economic development with the basic protection and professional services; achieving the joint development objective of the Company, shareholders, market and community, jointly establishing an industry union, jointly creating a WIN-WIN market opportunity and jointly sharing the benefits and profits.

Last but not least, we extend our most heartfelt thanks to all our shareholders, investors, partners, customers and employees for all of their great care and continuous support over a long period of time.

Guo Yumei
Chairperson

Kunming, China, April 25, 2017

CHAPTER THREE DEFINITIONS

"Board" or "Board of Directors"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report only, Hong Kong, Macau and Taiwan
"Company" or "Issuer" or "we"	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established in Yunnan Province, the PRC, with limited liability on December 23, 2010 in accordance with PRC laws, and, if the context requires, including its predecessors and subsidiaries
"Controlling Shareholder"	has the meaning ascribed thereto in the Listing Rules and refers to Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on October 13, 2004
"Dianyuanzhen Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective August 1, 2016, in relation to the entrusted operation of the Dianyuanzhen Water Purification Plant
"Director(s)"	director(s) of the Company
"Domestic Shares"	ordinary shares in the Company's share capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
"Haikou Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective as of August 1, 2016, in relation to the entrusted operation of the Haikou Water Purification Plant
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Kunming Dianchi Investment"	Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on October 13, 2004, which is a Controlling Shareholder of the Company
"Kunming DIG"	Kunming Development Investment Group Co. Ltd. (昆明發展投資集團有限公司), a company with limited liability incorporated in the PRC on January 27, 2010, which is a shareholder of the Company
"Kunming No. 9 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company on August 28, 2015 in relation to the entrusted operation of the Kunming No. 9 Water Purification Plant
"Kunming No. 10 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company on August 28, 2015 in relation to the entrusted operation of the Kunming No. 10 Water Purification Plant
"Kunming No. 11 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company on October 10, 2016, with service effective as of August 4, 2016, in relation to the entrusted operation of the Kunming No. 11 Water Purification Plant
"Kunming SAMO"	Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司), a company with limited liability incorporated in the PRC on July 4, 1992, which is an existing shareholder of the Company holding 2,738,000 Domestic Shares, representing 0.38% of the total issued share capital of the Company as at the date of this prospectus
"Kunming SASAC"	the State-owned Assets Supervision and Administration Commission of Kunming (昆明市人民政府國有資產監督管理委員會), a government agency that performs investor's responsibilities, supervises and manages the state-owned assets of the enterprises under the supervision of the Kunming municipal government (excluding financial enterprises), shoulders the responsibility of supervising the preservation and increment of the value of the state-owned assets of the supervised enterprises, and is responsible for drafting local laws and regulations on the management of the state-owned assets

"Latest Practicable Date"	April 20, 2017, being the latest practicable date for the inclusion of certain information and data in this annual report prior to its publication
"Listing"	listing of the H Shares on the Hong Kong Stock Exchange
"Listing Date"	the date, being April 6, 2017, on which the Company's H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Luolonghe Rain Water Station Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated October 10, 2016, with service effective as of August 1, 2016, in relation to the entrusted operation of the Luolonghe Rain Water Station (currently renamed as Luolonghe Water Purification Plant)
"Non-competition Agreement"	the non-competition agreement entered into between the Controlling Shareholder and the Company dated April 25, 2016
"Prospectus"	the prospectus of the Company dated March 24, 2017 in relation to the initial public offering and the listing of H shares on the Stock Exchange
"RMB" or "Renminbi"	the lawful currency of the PRC
"Reporting Period"	2016 (January 1, 2016 to December 31, 2016)
"Sayingpan Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company, effective as of August 1, 2016 in relation to the entrusted operation of the Sayingpan Water Purification Plant
"Yunlong Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company, effective as of August 1, 2016 in relation to the entrusted operation of the Yunlong Water Purification Plant

CHAPTER FOUR GLOSSARY OF TECHNICAL TERMS

"BOD"	Biochemical Oxygen Demand, which is the amount of dissolved oxygen consumed by microorganisms to break down organics present in a given water sample under certain conditions over a specific time period. It is widely used as an indication of the organic quality of water
"BOO"	Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
"BOT"	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns, while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
"BT"	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
"CAGR"	compound annual growth rate, which is the annual growth rate over a specified period of time longer than one year

GLOSSARY OF TECHNICAL TERMS

"pre-trial operation"	A stage in the project construction process as prescribed by the PRC government in accordance with the Provisions on Municipal Projects Design Budget Estimate Making, Jian Biao [2011] No. 1) (《市政工程設計概算編製辦法》(建標[2011] 1號)) issued by the Ministry of Housing and Urban-Rural Development where a facility under construction is tested for its operational functionality and further developed to qualify for regulatory approvals and enter commercial operation
"TOO"	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
"TOT"	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, while upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
"utilization rate"	the actual volume of water supplied or wastewater treated divided by the designed volume of water supplied or wastewater treated for a given period
"wastewater treatment"	use of physical, chemical and biological methods to remove pollutants from wastewater or to turn pollutants into innoxious substances before discharging it into a water body or reclaiming it for reuse
"weighted average utilization rate"	the total actual daily volume of water supplied or wastewater treated divided by the total designed volume of water supplied or wastewater treated for a given period within a given set of facilities

CHAPTER FIVE SUMMARY OF OPERATING AND FINANCIAL DATA

The following table sets out our key operational and financial data for the periods or as of the dates indicated:

SUMMARY OF OPERATING DATA

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

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

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

SUMMARY OF CONSOLIDATED BALANCE SHEETS

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

SUMMARY OF OPERATING AND FINANCIAL DATA

SUMMARY OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

SUMMARY OF OPERATING AND FINANCIAL DATA

SUMMARY OF CONSOLIDATED CASH FLOW STATEMENTS

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

SUMMARY OF OPERATING RESULTS BY SEGMENT

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

The industry chain of China's municipal water industry primarily consists of three key components: production and supply of running water from qualified raw water sources; treatment of municipal wastewater collected through municipal pipelines; and further treatment of wastewater effluent for reuse. Our core business segments include municipal wastewater treatment, reclaimed water supply and running water supply.

In 2016, the "13th Five-Year Plan" of the PRC government has called for the comprehensive improvement of eco-environmental quality as one of its main goals and overall philosophy. The PRC government has expanded the overall layout of the development strategy from the "four-in-one" of economic development, political development, cultural development and social development into the "five-in-one" with the inclusion of the development of ecological civilization for the first time. Centering around this new objective, overall planning and deployment have been carried out from different aspects of comprehensive environmental management, ecological security mechanism and green environmental protection industry development. On the one hand, the strengthening support to environmental protection industry by way of favourable government policies demonstrates that China is determined to continue tightening pollution control and enhancing awareness of improvement of the environment, and on the other hand, it also provides new and further opportunities and a broader platform for the long-term and sustainable development of the environmental protection industry.

In December 2016, the PRC government introduced the National Urban Wastewater Treatment and Recycling Facilities Construction Plan (《「十三五」全國城鎮污水處理及再生水利用設施建設規劃》) which states that during the 13th Five-year Plan Period, it is to further coordinate the planning and reasonable layout, and to make greater contribution, for purposes of changing the mode of the construction of urban wastewater treatment from "scaled growth" to "quality and efficiency enhancement". As a result thereof, the safeguarding capability and servicing level of the PRC urban wastewater treatment facilities will be enhanced and upgraded completely, enabling the public to really feel the effectiveness of the improvement made to the quality of the water environment.

During the reporting period, the environmental protection industry in China continued to develop favorably under the positive economic outlook of China with the following major changes: (1) nowadays, the implementation of environmental protection projects places more emphasis on its goal of improving environmental quality than on the production capacity and paramount importance whether in terms of the government's planning or the monitoring system; (2) the investment in the environmental protection industry shifts from focusing on the quantity of the outputs to the quality of the outputs and from the supply and demands of the industry to the supply of the industry; and (3) the robust development of the environmental protection industry is continuously driving the growth of segment market, such as black and odorous water treatment, sponge city construction and development, soil remediation technologies, carbon trading and other new markets having shown enormous business potential. It is expected that the environmental protection industry will enter into a new phase of digital upgrade with the introduction of new concepts such as smart environmental technology and digital environmental protection.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Overview of Wastewater Treatment Industry

The municipal wastewater treatment industry in China is rapidly developing, due to increases in government investment, infrastructure, funding and efficiency and enhanced discharge standards. From 2015 to 2020, capacity of China's municipal wastewater treatment is expected to increase from 168.4 million m^3 per day to 218.0 million m^3 per day, at a CAGR of 5.3%. The treatment capacity may probably reach 66.3 billion m^3 by 2020. Generally, infrastructure in Yunnan Province is less developed than those in the coastal regions. The urbanization rates of Yunnan Province and Guizhou Province are lower than those of the provinces of eastern China. Rapid development of economy and urbanization drive the development of the municipal wastewater industry in Yunnan Province and Guizhou Province.

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

2. Overview of Reclaimed Water Industry

Going forward, capacity of reclaimed water is expected to grow at a CAGR of 10.4% between 2015 and 2020. By 2020, the total production capacity of reclaimed water in China is estimated to reach 41.6 million m^3 per day. The total production capacity of reclaimed water in Yunnan Province, China is expected to reach 272,000 m^3 per day in 2020, doubling that in 2015. The Government highly values the development of the supply of running water in western China and the government of Yunnan Province strongly supports the reclaimed water industry.

3. Overview of Municipal Water Supply Industry

Due to continuous urbanization and construction of water supply facilities in county-level regions, the national municipal running water supply capacity is expected to keep growing at a rate of 1.3% in the five coming years reaching 368.0 million m^3 per day by 2020. In Yunnan Province, the PRC, the municipal running water supply capacity is continuously growing. The relocation of manufacturing industry to China's western provinces and the accelerated urbanization in these regions are expected to boost the growth of urban population and GDP, which in turn will increase the demand for municipal running water supply.

Driven by the state policies, it is expected that huge market opportunities and potential will be brought for the future of the water supply services. Wastewater treatment, reclaimed water and water supply industry will benefit from the rapidly accelerating urbanization in China and the policy support of the Chinese government for the overall environmental protection industry. The Board expects that the level of development and scale and growth of the industries will be further expanded and investors in the capital markets will also gradually pay more attention to the environmental protection industry.

II. DEVELOPMENTAL STRATEGY AND PROSPECTS

The Group is a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC and a provider of integrated water-related services (including running water supply service) in China's water industry. We enjoy exclusive rights to provide wastewater treatment services in Kunming and some other certain areas of China. According to Frost & Sullivan, the Group is the largest municipal wastewater treatment enterprise in Yunnan Province, the PRC, in terms of treatment capacity, and is a technologically advanced enterprise of treatment wastewater in the PRC providing integrated services in the business segments of municipal wastewater treatment, reclaimed water supply, running water supply and other water-related services. Under the auspices of the national and local PRC governments, the Group is one of the major enterprises implementing the PRC's strategic goal to treat pollutants at Dianchi Lake.

The Group's objective is to become a leading integrated water and environmental protection services provider in the PRC. In this connection, we intend to seize the development opportunities provided by the policy of "One Belt One Road", and the aim of building a more ecological Yunnan and China, to strengthen our core business of wastewater treatment and reclaimed water supply, to expand our geographic coverage and to extend our services.

2017 is the first year that the H Shares of the Company are listed on the Stock Exchange. The successful Listing has not only strengthened the shareholders base of the Group, but also further enhanced the Group's financing capability and increased its brand awareness and reputation. During the Reporting Period, the Group continued to steadily develop its various business segments. Due to the support of the relevant favourable policies in the PRC and South-east Asia, and the growing market demands, in addition to consolidating and expanding the achievements gained in the existing water business, the Group continued to expand its services to new geographical areas, with primary focus on relevant regions in China and selected markets in Southeast Asia and South Asia; to expand its services coverage to include both upstream and downstream water services businesses and other ecology-related businesses, with a primary focus on wastewater treatment, reclaimed water supply and running water supply businesses; to build an integrated technologically innovative system, to apply innovations to drive its growth and to solidify its technically competitiveness; to strive for prudent financial and operational management and to deliver sustainable returns to our Shareholders; and to increase its capability to reduce pollution and capitalize on the opportunity of the future pollution right trading scheme in Yunnan Province, the PRC.

III. BUSINESS REVIEW

We principally adopt the TOO, TOT and BOT project models, with a primary focus on the TOO model. As of and for the year ended December 31, 2016, our TOO projects contributed to 77.0% of our total revenue, and our TOT projects contributed to 5.5% of our total revenue, and our BOT projects contributed to 6.4% of our total revenue. We also adopt the BOO and BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities for agreed prices from the relevant local governments. For the BOO and BOT models, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtain new concessions or transfer the relevant facilities back to the relevant local governments, depending on project types. As of the Latest Practicable Date, we had a total of 34 plants under concession agreements, of which 29 plants were in operation, two plants were under construction and three plants (two of which being located in Laos) were under development. Among such 29 plants in operation, 15 were TOO projects, and 13 were TOT projects, and one was a BOT project.

During the Reporting Period, the utilization rate of our facilities is above the industry average and the volume of wastewater treated maintained a high level. For the year ended December 31, 2016, the total volume of wastewater treated was 517.9 million m^3 with an average facility utilization rate of 92.8%.

Wastewater Treatment Projects

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

Reclaimed Water Business

For our reclaimed water business, as of the Latest Practicable Date, we had six of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 44,000 m^3. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming. The production of our reclaimed water supply business has increased year by year from 2015 to 2016. We expect this growth momentum to continue as we expand our reclaimed water business.

Running Water Business

For our running water business, as of the Latest Practicable Date, we had three running water plants in operation in Yunnan Province, the PRC, one running water plant under construction and one running water plant under development in Yunnan Province, the PRC, and one running water plant under development in Laos.

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

IV. FINANCIAL REVIEW

1. CONSOLIDATED RESULTS OF OPERATIONS

Our revenue increased by RMB89.8 million, or 10.9%, to RMB914.9 million for the year ended December 31, 2016, from RMB825.1 million for the year ended December 31, 2015. Our gross profits were RMB378.1 million and RMB425.5 million respectively. For 2015 and 2016, the revenue from the service of wastewater treatment respectively accounted for 85.2% and 83.7% of the total revenue. The revenue from running water supply and management services accounted for most of other revenue.

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

	As for the year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**914,925**	825,107
Cost of sales	**(489,444)**	(446,967)
Gross profit	**425,481**	378,140
Selling expenses	**(10,605)**	(9,456)
Administrative expenses	**(97,604)**	(69,857)
Research and development expenses	**(7,398)**	(26,144)
Other income	**82,019**	42,259
Other losses – net	**(1,272)**	(2,774)
Operating profit	**390,621**	312,168
Finance income	**16,670**	20,005
Finance costs	**(80,299)**	(64,064)
Finance costs – net	**(63,629)**	(44,059)
Share of results of associates	**(121)**	(367)
Profit before income tax	**326,871**	267,742
Income tax expense	**(51,193)**	(30,131)
Total comprehensive income	**275,678**	237,611

(a) Revenue

Our revenue increased by RMB89.8 million, or 10.9%, to RMB914.9 million for the year ended December 31, 2016, from RMB825.1 million for the year ended December 31, 2015, primarily due to an increase in revenue generated from our wastewater treatment, other water-related service segment and other segments.

- Our revenue from wastewater treatment segment increased by RMB63.2 million, or 9.0%, to RMB765.9 million for the year ended December 31, 2016, from RMB702.7 million for the year ended December 31, 2015, primarily due to increased income from wastewater treatment as contributed by new wastewater treatment plants acquired since December 31, 2015, partially offset by the full-year impact of value-added tax imposed since July 2015, and decreased construction revenue resulting from the different construction stages of our Yiliang County No. 2 Wastewater Treatment Plant between the two periods.

- The revenue from our other water-related services segment increased by RMB20.1 million, or 47.9%, to RMB62.4 million for the year ended December 31, 2016, from RMB42.2 million for the year ended December 31, 2015, primarily due to an increase in the revenue from construction service, and the revenues from the Malong No. 1 Running Water Plant and the Malong Dongguang Water Plant, which we acquired in July 2015 and consolidated into our financial results in August 2015, and Shidian County No. 2 Running Water Supply Plant, which began trial production in July 2016, partially offset by the decrease in operating revenues from reclaimed water supply business resulting from the full-year impact of value-added tax imposed since July 2015.

- Our other segment revenue increased by RMB6.5 million, or 8.1%, to RMB86.7 million for the year ended December 31, 2016, from RMB80.2 million for the year ended December 31, 2015, primarily due to revenue contribution from Kunming Heertai Environmental Industry & Trade Co. Ltd., which we acquired in December 2015, the full-year impact of management services fees for managing the Kunming Nos. 9, 10 and 11 Water Purification Plants on behalf of our Controlling Shareholder since the latter half of 2015, the management services fees for the management of Haikou Water Purification Plant, Baiyukou Water Purification Plant, Baiyuhe Water Purification Plant, Luolonghe Water Purification Plant, Dianyuanzhen Water Purification Plant, Aziying Water Purification Plant, Yunlong Water Purification Plant and Sayingpan Water Purification Plant on behalf of our Controlling Shareholder since August 1, 2016, and revenues generated from other miscellaneous activities such as sludge transportation and water quality testing, while partially offset by a decrease in revenue from management services resulting from the termination of our management services performed for the Kunyang, Gucheng and Yunihe Water Purification Plants and the Luolonghe and Laoyuhe Wastewater Treatment Plants, which commenced commercial operations in January 2016 and whose revenues were thereafter recognized in operation revenues from wastewater treatment segment.

(b) Cost of sales

Our cost of sales increased by RMB42.4 million, or 9.5%, to RMB489.4 million for the year ended December 31, 2016, from RMB447.0 million for the year ended December 31, 2015, primarily due to an increase in cost of sales from our wastewater treatment, other water-related service segment and other segments.

- Our cost of sales for the wastewater treatment segment increased by RMB19.7 million, or 5.5%, to RMB379.0 million for the year ended December 31, 2016, from RMB359.3 million for the year ended December 31, 2015, primarily due to increased material costs resulting from our initiatives to further improve our effluent quality and increased employee and labor costs related to our expanded business resulting from our acquisition activities, partially offset by our decreased utility costs resulting from a reduction in electricity tariff and decreased construction costs due to the completion of the main body construction of our Yiliang County No. 2 Wastewater Treatment Plant.

- Our cost of sales for other water-related services segment increased by RMB21.5 million, or 57.2%, to RMB59.1 million for the year ended December 31, 2016, from RMB37.6 million for the year ended December 31, 2015, primarily due to the increase in the costs of construction service and in materials, labor and other costs relating to our new running water supply business, which started in July 2015.

- Our cost of sales for other segments increased by RMB1.3 million, or 2.6%, to RMB51.4 million for the year ended December 31, 2016, from RMB50.1 million for the year ended December 31, 2015, primarily due to increased costs relating to the management services undertaken for the Kunming Nos. 9, 10 and 11 Water Purification Plants, Haikou Water Purification Plant, Baiyukou Water Purification Plant, Baiyuhe Water Purification Plant, Luolonghe Water Purification Plant, Dianyuanzhen Water Purification Plant, Aziying Water Purification Plant, Yunlong Water Purification Plant and Sayingpan Water Purification Plant, increased materials costs relating to our initiatives to improve water effluent quality, costs relating to the water treatment chemicals production business of Kunming Heertai Environmental Industry & Trade Co. Ltd., which we acquired in December 2015, and increased business tax and levies resulting from value-added tax imposed since July 2015, partially offset by a decrease in costs relating to the termination of our management services performed for the Kunyang, Gucheng, Yunihe Water Purification Plants and the Luolonghe and Laoyuhe Wastewater Treatment Plants.

(c) Gross margin

Our gross profit increased by RMB47.3 million, or 12.5%, to RMB425.5 million for the year ended December 31, 2016, from RMB378.1 million for the year ended December 31, 2015, primarily due to an increase of RMB11.6 million in profit from our wastewater treatment segment and an increase of RMB5.1 million in profit from our other segment, partially offset by a decrease of RMB2.5 million in profit from our other water-related service segments.

- Our gross profit margin increased to 46.5% for the year ended December 31, 2016 from 45.8% for the year ended December 31, 2015, primarily due to an increase in gross profit margin of the wastewater treatment and other segments, partially offset by a decrease in gross profit margin of the other water-related service segments.

- Our gross profit for the wastewater treatment segment increased by RMB43.5 million, or 12.7%, to RMB386.9 million for the year ended December 31, 2016, from RMB343.4 million for the year ended December 31, 2015. Our segment gross margin increased to 50.7% for the year ended December 31, 2016 from 48.9% for the year ended December 31, 2015, primarily due to the commencement of commercial operations of the Kunyang, Gucheng and Yunihe Water Purification Plants and the Luolonghe and Laoyuhe Wastewater Treatment Plants. These plants had high gross margins because they received tariffs for the government guaranteed minimum volume but incurred low utility costs including electricity fees as the actual volume of wastewater treated was lower. The increase in our gross profit and gross margin was partially offset by the full-year impact of value-added tax imposed since July 2015, which resulted in less revenue for a given volume of wastewater treated but the cost of treatment would remain the same.

- Our gross profit for other water-related services segment decreased by RMB1.4 million, or 29.8%, to RMB3.3 million for the year ended December 31, 2016, from RMB4.7 million for the year ended December 31, 2015. Our segment gross profit margin decreased to 5.3% for the year ended December 31, 2016, from 11.1% for the year ended December 31, 2015. The decrease was primarily due to the increased proportion of construction revenue, which yielded low gross margin after the construction revenue having been recognized and thereby decreased the overall segment gross profit margin. The segment gross profit margin for our operational services was also negatively affected by the full-year impact of value-added tax imposed since July 2015 on the reclaimed water business.

- Our gross profit for the others segment increased by RMB5.2 million, or 17.3%, to RMB35.3 million for the year ended December 31, 2016, from RMB30.1 million for the year ended December 31, 2015. Our segment gross profit margin increased to 40.6% for the year ended December 31, 2016, from 37.5% for the year ended December 31, 2015, primarily due to the high margin of management services which we began to provide to Haikou Water Purification Plant, Baiyukou Water Purification Plant, Baiyuhe Water Purification Plant, Luolonghe Water Purification Plant, Dianyuanzhen Water Purification Plant, Aziying Water Purification Plant, Yunlong Water Purification Plant and Sayingpan Water Purification Plant on behalf of our Controlling Shareholder since August 1, 2016, partially offset by the decrease in revenue resulting from the full-year impact of value-added tax imposed since July 2015, and the lower profit relating to the water treatment chemicals production business of Kunming Heertai Environmental Industry & Trade Co. Ltd., which we acquired in December 2015.

(d) Selling expenses

Our selling expenses increased by RMB1.1 million, or 11.6%, to RMB10.6 million for the year ended December 31, 2016, from RMB9.5 million for the year ended December 31, 2015, primarily as a result of the commencement of commercial operations of the Luolonghe and Laoyuhe Wastewater Treatment Plants in January 1, 2016, which increased our revenue from public procurement and therefore increased the attendant's 3% commission charge paid to the running water supplier who collected the wastewater treatment tariff from the running water end users for us.

(e) Administrative expenses

Our administrative expenses increased by RMB27.7 million, or 39.7%, to RMB97.6 million for the year ended December 31, 2016, from RMB69.9 million for the year ended December 31, 2015, primarily due to increases in professional expenses, employee benefit expenses and office expenditures associated with our acquisition activities.

(f) Research and development expenses

Our research and development expenses decreased by RMB18.7 million, or 71.7%, to RMB7.4 million for the year ended December 31, 2016, from RMB26.1 million for the year ended December 31, 2015, primarily due to the conclusion of research projects we previously undertook and the time gap before the undertaking of research projects under the 13th Five-year Plan, where such reach projects are expected to kick off in 2018.

(g) Other income

Our other income increased by RMB39.7 million, or 94.1%, to RMB82.0 million for the year ended December 31, 2016, from RMB42.3 million for the year ended December 31, 2015, primarily due to an increase in refund of value-added tax resulting from the value-added tax imposed in July 2015 and its refund policies, and increased government grants we received relating to our R&D activities.

(h) Other losses

Our other losses decreased by RMB1.5 million, or 53.6%, to RMB1.3 million for the year ended December 31, 2016, from RMB2.8 million for the year ended December 31, 2015, primarily due to a gain of RMB2.4 million on disposal of land use right as a result of the local government's requisition of land for road construction.

(i) Operating profit

As a result of the foregoing factors, our operating profit increased by RMB78.4 million, or 25.1%, to RMB390.6 million for the year ended December 31, 2016, from RMB312.2 million for the year ended December 31, 2015. Our operating margins for the year ended December 31, 2016 and 2015 were 42.7% and 37.8%, respectively.

(j) Finance income

Our finance income decreased by RMB3.3 million, or 16.5%, to RMB16.7 million for the year ended December 31, 2016, from RMB20.0 million for the year ended December 31, 2015, primarily because of a decrease in the interest income from the prepayments made for acquisition of projects.

(k) Finance costs

Our finance costs increased by RMB16.2 million, or 25.3% in respect of the net expenses in interest on borrowings, to RMB80.3 million for the year ended December 31, 2016, from RMB64.1 million for the year ended December 31, 2015, primarily due to a RMB16.2 million, or 25.3%, increase in net interest expense on borrowings, primarily as a result of our issuance in the PRC of the corporate bonds in the principal amount of RMB700.0 million on December 25, 2015. The weighted average effective interest rates of our borrowings for the year ended December 31, 2016 and the year ended December 31, 2015 were 4.78% and 5.48%, respectively.

(l) Profit before income tax

As a result of the foregoing factors, our profit before income tax increased by RMB59.2 million, or 22.1%, to RMB326.9 million for the year ended December 31, 2016 from RMB267.7 million for the year ended December 31, 2015.

(m) Income tax

We incurred income tax expenses of RMB51.2 million for the year ended December 31, 2016 and RMB30.1 million for the year ended December 31, 2015 respectively at effective tax rates of 15.7% and 11.3%, respectively. Our effective tax rates increased due to the expiration of preferential tax treatments of some of our wastewater treatment facilities and our acquisition of subsidiaries which did not qualify for the 15%-preferential enterprise income tax rate of the “Developing Western China Policy” and were subject to the full enterprise income tax rate of 25%.

(n) Total comprehensive income

As a result of the foregoing factors, our total comprehensive income increased by RMB37.4 million, or 15.7%, to RMB275.0 million for the year ended December 31, 2016, from RMB237.6 million for the year ended December 31, 2015.

2. LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for investing in, constructing, operating and maintaining our wastewater treatment and water supply facilities. To date, we have funded our investments and operations principally with bank loans, cash generated from our operations, equity contributions and issuance of debt instruments. We believe that our liquidity requirements will be satisfied through a combination of cash flows generated from our operating activities, bank loans and other borrowings, and the net proceeds from this Global Offering. Any significant decrease in the demand for, or pricing of, our products and services, or a significant decrease in the availability of bank loans, may adversely impact on our liquidity.

The following table sets out our cash flows for the periods indicated:

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

(a) Net cash generated from operating activities

Our net cash generated from operating activities primarily consists of cash received from our clients for services and products provided by us. We also use cash in our operations for the purchase of raw materials and other inventories, payments to suppliers and subcontractors, payments of expenses such as salaries and benefits, and payments of interest and income tax.

For the year ended December 31, 2016, our net cash generated from operating activities was RMB56.6 million and was less than our net cash generated from operating activities for the year ended December 31, 2015 of RMB1,007.0 million, primarily comprising cash generated from operations amounting to RMB145.8 million, partially offset by the income tax paid amounting to RMB62.7 million and interest paid amounting to RMB26.4 million.

(b) Net cash used in investing activities

Our net cash used in investing activities has principally been used to purchase property, plant and equipment and equity interests in subsidiaries and associates.

For the year ended December 31, 2015, our net cash used in investing activities was RMB653.5 million and was reduced to RMB238.3 million for the year ended December 31, 2016, which primarily comprising the purchase of property, plant and equipment amounting to RMB99.8 million, the acquisition of subsidiaries amounting to RMB99.7 million and government grants returned amounting to RMB22.0 million as a result of the termination of a proposed sludge treatment project.

(c) Net cash used in/generated from financing activities

Our net cash generated from financing activities primarily represents capital contributions from our Shareholders and proceeds from borrowings.

For the year ended December 31, 2015, our net cash generated from financing activities was RMB431.8 million (net inflow) and was changed to RMB459.0 million (net outflow) for the year ended December 31, 2016, which primarily comprising repayments of borrowings amounting to RMB827.2 million, partially offset by proceeds from borrowings amounting to RMB380.5 million.

3. WORKING CAPITAL

The table below presents our current assets and current liabilities as at the dates indicated:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
Current assets		
Receivables under service concession arrangements	**9,679**	6,132
Inventories	**10,336**	6,605
Amount due from customers for construction contracts	**5,716**	6,104
Trade and other receivables	**306,895**	189,762
Term deposits with initial term of over three months	**–**	–
Cash and cash equivalents	**446,830**	1,087,533
Total current assets	**779,456**	1,296,136
Current liabilities		
Trade and other payables	**422,339**	550,048
Current income tax liabilities	**44,568**	24,887
Borrowings	**778,737**	780,213
Total current liabilities	**1,245,644**	1,355,148
Net current liabilities	**(466,188)**	(59,012)

We recorded net current liabilities of RMB466.2 million as of December 31, 2016 and RMB59.0 million as of December 31, 2015, respectively. The increase in net current liabilities was mainly attributable to a decrease in current assets as a result of cash repayment of borrowings, and an increase in current liabilities as a result of certain long-term borrowings falling due within one year in 2016. Our net current liabilities positions were mainly attributed to borrowings and trade and other payables for the relevant periods. These items primarily reflected the amount of short-term financings we obtained to support our construction projects and acquisition activities.

Despite our increases in capital expenditures and our net current liabilities position, we have not experienced any financial difficulty with respect to our cash flows during the Reporting Period. Our Directors confirm that there has not been any material default on our part in the payment of trade and other payables or bank and other borrowings, nor has there been any breach of financial deeds by us during the Reporting Period.

(a) Receivables under service concession arrangements

We accrue receivables under service concession arrangements throughout a concession period. Our receivables under service concession arrangements refer to the outstanding receivables arising from our construction services (for BOT projects) or acquisition considerations (for TOT projects), adjusted by operation services and finance income after deducting the tariff payments accrued throughout a concession period. Under our BOT and TOT agreements, the amount of receivables under service concession arrangements will be settled by tariff payments to be received during the operation phases of our BOT and TOT projects. The portion of the receivables under service concession arrangements due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets.

Our receivables under service concession arrangements that were classified as current assets amounted to RMB9.7 million as of December 31, 2016. This represented a year-to-year increase of 59.0% between 2015 and 2016, primarily due to an increase in the number of service concession projects we undertook.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB341.9 million as of December 31, 2016. This represented a year-to-year increase of 40.2% between 2015 and 2016, primarily due to an increase in the number of service concession projects we undertook.

(b) Inventories

Our total inventory balance increased by RMB3.7 million, or 56.1%, to RMB10.3 million as of December 31, 2016 from RMB6.6 million as of December 31, 2015. Such an increase reflected an increase in materials for wastewater treatment and water supply services by RMB2.4 million, or 133.3%, to RMB4.2 million as of December 31, 2016 from RMB1.8 million as of December 31, 2015 and an increase in spare parts by RMB1.3 million, or 27.1%, to RMB6.1 million as of December 31, 2016 from RMB4.8 million as of December 31, 2015.

As for the years ended December 31, 2015 and 2016, our inventory turnover days were 5.3 days and 6.3 days respectively (calculated as the average inventories for the relevant period divided by the cost of sales recognized as cost of sales for the relevant period, multiplied by 365 days). The inventory turnover days for 2016 remained stable between.

(c) Amounts due from customers for construction contracts

Our amounts due from customers for construction contracts increased by RMB6.7 million, or 19.4%, to RMB41.3 million as of December 31, 2016 from RMB34.6 million as of December 31, 2015, primarily due to the ongoing construction of Yiliang No. 2 Wastewater Treatment Plant's pipeline network and other pipeline projects.

(d) Trade and other receivables

Our trade and other receivables primarily consist of (i) trade receivables from third parties, related parties and local governments; (ii) other receivables from third parties, related parties; and (iii) prepayments. Our trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business, including services performed for TOO and TOT projects and performed during the operation period of BOO and BOT projects. Our other receivables primarily consist of loan granted to and interest receivable from related parties, and VAT refund which is yet received. Our prepayments primarily consist of listing expenses related to the Global Offering. The following table shows the breakdown of our consolidated trade and other receivables as of the dates indicated:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables		
– Third parties	**941**	439
– Related parties	**39,678**	87,728
– Local government	**85,381**	9,417
Net trade receivables	**126,000**	97,584

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
Other receivables		
– Third parties	6,539	25,313
– Related parties	39,472	24,020
– Hongzetianying Water Treatment Co., Ltd. (洪澤天楹水處理有限責任公司, "**Hongze Water**")(「**洪澤水務**」)	41,725	–
– Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "**Qutang Water**")(「**曲塘水務**」)	3,744	–
– Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "**Libao Water**")(「**李堡水務**」)	2,279	–
– Local government	51,590	27,535
Net other receivables	145,349	76,868
Prepayments		
– Listing expenses	28,946	13,521
– Others	6,600	1,789
Net prepayments	35,546	15,310
Net trade and other receivables	306,895	189,762

Our net trade and other receivables increased by RMB117.1 million, or 61.7%, to RMB306.9 million as of December 31, 2016 from RMB189.8 million as of December 31, 2015. The increase reflected (i) other receivables due from Hongze Water, Qutang Water and Libao Water amounting to RMB47.7 million as of December 31, 2016 (mainly reflecting prepayments in connection with the Nantong Project); (ii) an increase in trade receivables due from local government by RMB76.0 million, or 808.5%, to RMB85.4 million as of December 31, 2016 from RMB9.4 million as of December 31, 2015, primarily due to wastewater treatment fees charged in December 2016, which had been recognized but not yet paid by the relevant government authorities; (iii) an increase in other receivables due from local government by RMB24.1 million, or 87.6%, to RMB51.6 million as of December 31, 2016 from RMB27.5 million as of December 31, 2015, primarily due to an increase in tax refund receivables resulting from the imposition of value-added tax since July 2015; and (iv) an increase in the prepayment of listing expenses by RMB15.4 million, or 114.1%, to RMB28.9 million as of December 31, 2016 from RMB13.5 million as of December 31, 2015.

The aging analysis of trade receivables of our Group is shown as follows:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
– Within one year	**125,542**	95,502
– Over one year and within two years	**458**	2,082
	126,000	97,584

Based on the past experience, the directors believe that no impairment allowance of trade receivables is necessary because the customers are mainly local government authorities and there has not been a significant change in their credit quality. Accordingly, these balances are considered fully recoverable.

The following table sets out our receivable turnover days for the periods indicated:

	As of December 31,	
	2016	2015
	Days	*Days*
Trade receivables turnover days (1)	**44.6**	157.3
Trade and other receivables turnover days (2)	**99.1**	222.8

Notes:

(1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period, and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended December 31, 2015 and 2016.

(2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period, and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended December 31, 2015 and 2016.

(e) Trade and other payables

Our trade and other payables primarily consists of trade payables, staff salaries and welfare payables, advance from customers, payables on acquisition of property, plant and equipment, interest payables, and accrued taxes other than income tax. The following table shows the breakdown of our trade and other payables as of the dates indicated:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**2,093**	717
Other payables	**53,176**	162,947
Consideration payable for acquisition of subsidiary	**18,447**	26,067
Staff salaries and welfare payables	**28,661**	21,075
Advance from customers	**12,177**	160,099
Payables on property, plant and equipment	**151,957**	100,723
Payables on acquisition of land use rights from related parties	**58,194**	–
Interest payables	**1,310**	1,998
Accrued taxes other than income tax	**96,324**	76,422
	422,339	550,048

Our trade and other payables decreased by RMB127.7 million, or 23.2%, to RMB422.3 million as of December 31, 2016 from RMB550.0 million as of December 31, 2015. The decrease was primarily due to (i) a decrease in other payables by RMB109.7 million, or 67.4%, to RMB53.2 million as of December 31, 2016 from RMB162.9 million as of December 31, 2015, mainly attributable to the payment of payables to related parties; and (ii) a decrease in advance from customers by RMB147.9 million, or 92.4%, to RMB12.2 million as of December 31, 2016 from RMB160.1 million as of December 31, 2015, mainly attributable to the recognition of the revenue corresponding to Kunming government's prepayment of wastewater treatment fee for the first quarter of 2016, partially offset by (1) an increase in payables on acquisition of property, plant and equipment by RMB51.3 million, or 50.9%, to RMB152.0 million as of December 31, 2016 from RMB100.7 million as of December 31, 2015 and (2) an increase in payables on acquisition of land use rights from related parties by RMB58.2 million, primarily due to our acquisition activities.

The aging analysis of trade and other payables of our Group is as follows:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
– Within one year	**2,093**	702
– Over one year and within two years	**–**	7
– Over two years and within three years	**–**	8
	2,093	717

As of December 31, 2015 and 2016, all trade and other payables of our Group were non-interest bearing, and their fair values, except for the advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

The following table sets out our payable turnover days for the periods indicated:

	As of December 31,	
	2016	2015
	Days	*Days*
Trade and other payables turnover days(1)	**362.6**	320.6
Trade payables turnover days (2)	**19.4**	6.9

Notes:

(1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period, and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December, 2015 and 2016.

(2) Calculated as the balance of trade payables at the end of the relevant period divided by total purchase of materials for such period and multiplied by 365 days for the years ended 31 December, 2015 and 2016.

Our trade payables turnover days remained stable in 2016. Our trade payables turnover days have consistently remained at a low level primarily due to the low cost of the raw materials and our general policy of settling accounts on a monthly basis with our major suppliers and paying our other suppliers within 10 to 15 days after receiving the delivery of goods.

Directors confirm that up to the Latest Practicable Date, there was no material default in payment of trade payables.

4. INDEBTEDNESS

(a) *Borrowings*

All of our borrowings are denominated in RMB and some are secured by our property, plant and equipment. The following table shows our borrowings as of the dates indicated:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
Non-current		
Unsecured long-term borrowings	–	310,000
Secured long-term borrowings	48,356	167,908
Corporate bonds	693,639	692,731
Total non-current borrowings	741,995	1,170,639
Current		
Unsecured short-term borrowings	660,000	660,000
Secured short-term borrowings	118,737	120,213
Total current borrowings	778,737	780,213
Total borrowings	1,520,732	1,950,852

The weighted average effective interest rate at each balance sheet date was as follows:

	As of December 31,	
	2016	2015
Average effective interest rate	4.8%	5.5%

Our total borrowings amounted to RMB1,950.9 million and RMB1,520.7 million as of December 31, 2015 and 2016, respectively. This represented an year-on-year decrease of 22.1% between 2015 and 2016. Among our indebtedness, borrowings amounting to RMB288.1 million and RMB167.1 million as of December 31, 2015 and 2016 were secured by our property, plant and equipment. In addition to bank borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on December 25, 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company can adjust the interest rate for the remaining 2-year period, and the investors have an option to request early redemption of the outstanding corporate bond if they do not agree to the adjusted interest rate.

Historically, we primarily used short-term bank financings to support our construction projects and acquisition activities. We intended to reduce our short-term indebtedness by replacing some of our short-term borrowings with long-term borrowings. In 2015, we replaced short-term debts amounting to approximately RMB300.0 million with long-term loans and offered corporate bonds amounting to approximately RMB700.0 million. In the future, we intend to continue to utilize a combination of short-term and long-term bank borrowings and corporate bonds for purposes of maintaining a diversified debt profile while retaining sufficient flexibility for our operational needs.

Our loan agreements typically include material covenants such as requirements to promptly notify the lending banks in the event of material adverse changes in our operations and financial condition as well as restrictions on the use of proceeds from the bank borrowings. We are typically required to obtain the relevant lending banks' prior written consent before we conduct reorganizations, mergers, demergers, joint ventures, capital reductions, equity transfers, transfers of major assets or creditor's rights, material investments, substantial increases of debt financing or other actions that may adversely affect our ability to repay the loans. There are no material covenants relating to our corporate bonds. Please refer to the section headed "Risk Factors–Risks Relating to Our Business and Industry–We are restricted by covenants in our financing agreements" in the prospectus. However, our Directors do not expect that such covenants will materially restrict our overall ability to undertake additional debt or equity financing necessary to carry out our current business plans. Our Directors further confirmed that up to the date of the prospectus, we had not experienced any material difficulties in obtaining banking facilities and debts financing nor had we been rejected for any loan application or debt offering.

As of the Latest Practicable Date, there was no delay or default in the repayment of our borrowings, and no bank had withdrawn any of the banking facilities previously extended to us nor had demanded any early repayment.

As of the Latest Practicable Date, we were not in breach of any covenants in our loan agreements. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. We also confirm that as of the Latest Practicable Date, we had not received any requests for early repayment of the principal or interests under any of our loan agreements, and we did not have any plan for material external debt financing.

The table below sets out the maturity profiles of our borrowings as of the dates indicated:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
On demand or within 1 year	**778,737**	780,213
Between 1 and 2 years	**48,356**	430,769
Between 2 and 5 years	**–**	47,139
More than 5 years	**693,639**	692,731
	1,520,732	1,950,852

As of December 31, 2015 and 2016, our net gearing ratios were 28.0% and 30.1%, respectively. Our net gearing ratio increased as of December 31, 2016 as compared to that of December 31, 2015 primarily due to a decrease in cash and cash equivalents which we spent for our operational and investment activities.

Except as disclosed above, as of the Latest Practicable Date, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

(b) Commitments

Our capital commitments contracted for at each balance sheet date, but not yet incurred are as follows:

	As of December 31,	
	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment	**458,123**	499,504
Land use rights and intangible assets	**16,978**	17,787
Acquisition of equity interests in subsidiaries	**–**	3,294
Acquisition of business under TOT/BOT model	**–**	11,000
	475,101	531,585

(c) Capital Expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenditure was RMB408.0 million and RMB668.2 million for the years ended December 31, 2015 and 2016, respectively. We expect to fund our contractual commitments and capital expenditures principally though cash generated from our operating activities, proceeds from borrowings and the net proceeds we receive from the Global Offering. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months commencing from the date of the prospectus.

Our capital expenditure for each of our segments as at the dates indicated below is as follows:

	As for the year ended December 31,	
	2016	2015
	RMB'000	*RMB'000*
Wastewater treatment	**651,031**	381,600
Other Water Services	**17,034**	26,353
Others	**86**	–
	668,151	407,953

Based on our current business plan, we expect to incur capital expenditure amounting to RMB627.4 million for the year ending December 31, 2017. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results. In addition, if we fail to obtain adequate financing, our ability to expand our business may be hindered. Please refer to "Risk Factors–Risks Relating to Our Business and Industry–Our wastewater treatment, reclaimed water supply and running water supply projects are capital intensive with long payback periods and we may require external funding for these projects" in the prospectus.

5. OFF-BALANCE SHEET ARRANGEMENTS

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

6. INITIAL PUBLIC OFFERING AND USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The H Shares of the Company were listed on April 6, 2017 and the Company issued 339,430,000 H Shares of par value of RMB1.00 per share with the Offer Price of HK$3.91 per H Share. The total issuance size (before deducting the expenses) amounted to approximately HK$1,327,171,300. After deducting (i) the net proceeds from the sale of Sale Shares by the Selling Shareholders in the Global Offering; and (ii) the underwriting commissions and other estimated expenses relating to the Global Offering and assuming the Over-allotment Option is not exercised, the Company would receive net proceeds of approximately HK$1,095.2 million from the Global Offering. As of the Latest Practicable Date, the Over-allotment Option had not been exercised fully.

For further information regarding the use of the Company's proceeds from the Global Offering, please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus.

7. EMPLOYEES AND REMUNERATION POLICIES

As for the employees and remuneration policies during the Reporting Period, please refer to "Report of the Board of Directors–I. Business Review–6. Relationship with Employees".

8. CONTINGENT LIABILITIES

As of December 31, 2016, the Group has not had any material contingent liability.

9. MAJOR INVESTMENT AND ACQUISITION

As for major investment and acquisition items during the Reporting Period, please refer to "Report of the Board of Directors–I. Business Review–5. Major After-period Events". Except as disclosed herein this Report, as of 31 December 2016, the Group has had no major investment nor the plan for acquiring capital assets.

CHAPTER SEVEN PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. EXECUTIVE DIRECTORS

Ms. Guo Yumei (郭玉梅), aged 49, joined our Group in July 1990. Ms. Guo was appointed as an executive Director and the general manager of our Company in January 2011 and as the chairperson of the Board on June 23, 2016. She has over 25 years of experience in the wastewater treatment industry, and is responsible for strategic decision making and management of our Company's operations. Ms. Guo is currently the chairperson of the strategy and investment decision committee, and a member of the remuneration and appraisal committee and the nomination committee of our Company.

Ms. Guo joined the Controlling Shareholder in July 2006 and has been the vice chairperson of the board of directors of the Controlling Shareholder since January 2015. Positions which she held at the Controlling Shareholder include manager of its public affairs department, chief operating officer for its public affairs, assistant to general manager and deputy general manager from July 2006 to January 2015. Ms. Guo worked at Kunming Municipal Utility Tariff Bureau (昆明市政公用局排水收費處) from July 1990 to December 1995. She worked at Kunming City Drainage Co. Ltd. (昆明市城市排水公司) from December 1995 to January 2002, responsible for the management of drainage, and she was a division chief of its general affairs division from January 2002 to July 2006, during which time she also worked at the Second General Affairs Division of Kunming Municipal Dianchi Administration Bureau (昆明市滇池管理局綜合二處) from October 2003 to May 2004.

Ms. Guo obtained a bachelor's degree in analytical chemistry from Yunnan University (雲南大學) in Yunnan Province, the PRC in July 1990. Ms. Guo has been recognized as a senior engineer in water supply and drainage since 2015. She was recognized as a "Young and Middle-aged Academic and Technology Leader of Kunming" (昆明市中青年學術和技術帶頭人) by the government of Kunming in 2012, and was recognized as an "Outstanding Woman Leader in Yunnan" (雲南省三八紅旗手) by Women's Union and Human Resources and Social Security Department of Yunnan Province in 2014. Ms. Guo was also named as a "2008-2012 Leader in Municipal Wastewater and Domestic Sewage Treatment Facilities Development in Yunnan Province" (雲南省2008年至2012年城鎮污水生活垃圾處理設施建設先進個人) by the Yunnan provincial government in 2013. She obtained the prize of "Leader in Energy Saving and Emission Reduction during the 11th Five-Year-Plan in Yunnan Province" (雲南省<十一五>期間節能減排工作先進個人) in April 2011. "Kunming Urban Drainage Network Geographic Information System" program leaded by Ms. Guo received the "Third Prize of Yunnan Province Science and Technology Award" (雲南省科學技術科技進步三等獎) by the Yunnan provincial government in 2007.

Mr. Luo Yun (羅雲), aged 38, joined our Group in June 2013 and was appointed as an executive Director of our Company on June 23, 2016. Mr. Luo has been the deputy general manager of our Company since January 2015, responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction. He served as the assistant to general manager from June 2013 to January 2015, responsible for assisting general manager in the management of our Company's operation, development, investment programs and marketing strategies. Mr. Luo is currently a member of the strategy and investment decision committee of our Company.

Mr. Luo served as a director of coordination department at Kunming Dianchi Project Management Company (昆明滇池項目管理有限公司), a subsidiary of the Controlling Shareholder from June 2008 to June 2009. He also served at Kunming Dianchi Property Development Company Limited (昆明滇池置業有限責任公司), a subsidiary of the Controlling Shareholder, as the deputy general manager from June 2009 to June 2013. From June 2012 to November 3, 2016, Mr. Luo served as a director of Kunming Dianxing Property Development Co., Ltd. (昆明滇星房地產開發有限責任公司) and of Kunming Dianlong Property Development Co., Ltd. (昆明滇龍房地產開發有限責任公司).

Mr. Luo graduated from Yunnan University (雲南大學) in Yunnan Province, the PRC, majoring in engineering management in January 2007, and obtained a master's degree of agricultural extension from Southwest Forestry University (西南林業大學) in Yunnan Province, the PRC in January 2013.

2. NON-EXECUTIVE DIRECTORS

Mr. Zeng Feng (曾鋒), aged 52, joined our Group in January 2011 and was appointed as a non-executive Director of our Company in January 19, 2011. Mr. Zeng participates in the development of our business strategies and advising on audit and internal control matters. He has over 23 years of experience in management. Mr. Zeng is currently a member of the audit committee of our Company. Mr. Zeng serves concurrently as a supervisor of Kunming Urban Resources Development Co., Ltd. (昆明市城市資源開發股份有限公司), the chairman of the board of directors and the general manager of Kunming DIG, the chairman of the board of directors of Kunming Petrochina Kunlun CNG Co., Ltd. (昆明中石油昆侖車用天然氣有限公司), and an executive director and the general manager of Kunming Urban Development Co., Ltd. (昆明城市發展有限責任公司).

From September 1999 to January 2006, Mr. Zeng successively served as the assistant to the director general, the deputy director general of finance sub-bureau and the director of the accounting center of Management Committee of Kunming High-tech Industrial Development Zone (昆明高新技術產業開發區管委會), responsible for finance and financial accounting. From October 2006 to April 2009, he worked at Management Committee of Kunming Airport Economic Zone (昆明空港經濟區管委會) where he served as the director general of its finance sub-bureau. From April 2009 to November 2010, Mr. Zeng served as the deputy district head of Guandu District, Kunming (昆明官渡區).

Mr. Zeng graduated from Yunnan Finance and Trade College (currently Yunnan University of Finance and Economics (雲南財經大學)) in Yunnan Province, the PRC, majoring in accounting in June 1990, and graduated from Department of Finance and Economics, Graduate School of Chinese Academy of Social Science (中國社會科學院) in Beijing, the PRC, majoring in commercial economy in November 1998.

* *For identification only*

Ms. Song Hong (宋紅), aged 53, joined our Group in June 2016 and was appointed as a non-executive Director of our Company on June 23, 2016. Ms. Song participates in the development of our business strategies. She has over 33 years of experience in finance sector. Ms. Song joined the Controlling Shareholder in September 2008. She served as a director and the chief financial officer of the Controlling Shareholder since June 2012. Ms. Song serves concurrently as a director of Kunming Diantou Bishuiyuan Water Technology Co., Ltd (昆明滇投碧水源水務科技有限公司).

Ms. Song worked at Kunming Tap Water Group Co., Ltd. (昆明市自來水集團有限責任公司) from December 1982 to September 2008, and served as the deputy director of finance department from December 2005 to September 2008. Ms. Song served as the director of the financial center of the Controlling Shareholder from September 2008 to September 2012.

Ms. Song studied in Communist Party of China Yunnan Provincial Committee School (中國共產黨雲南省委員會黨校) in Yunnan Province, the PRC, majoring in economic management from September 1997 to December 1999.

3. INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Man Chung Francis (黃文宗), aged 52, joined our Group in June 2016 and was appointed as an independent non-executive Director on June 23, 2016. Mr. Wong participates in making significant decisions and providing advice on corporate governance, connected transactions and various matters of Directors and senior management. He is currently the chairman of the audit committee of the Company.

Mr. Wong is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and The Society of Chinese Accountants and Auditors, and a Certified Tax Adviser of the Taxation Institute of Hong Kong. He is a Certified Public Accountant (Practicing) and has over 28 years of experience in auditing, taxation, corporate internal control and governance, acquisition and financial advisory, corporate restructuring and liquidation, family trust and wealth management.

Previously, Mr. Wong worked as an assistant manager at KPMG, an international accounting firm, from August 1985 to December 1991 and served as an assistant manager in the compliance department of the HKSCC from January 1992 to October 1993. Thereafter, Mr. Wong practiced as a certified public accountant under his own name and founded Francis Wong C.P.A. Co. Limited, a professional accounting firm. In March 2002, Mr. Wong's practice was merged with those of his existing partners and formed Union Alpha C.P.A. Limited, a professional accounting firm. Mr. Wong currently holds the position of managing director at Union Alpha C.P.A. Limited. Since August 2009, Mr. Wong has been the executive director at Union Alpha CAAP Certified Public Accountants Limited, a professional accounting firm. Since February 2008 and up to present, he has been the founding director and member of Francis M C Wong Charitable Foundation Limited, a charitable institution.

Mr. Wong serves as a director in the following companies:

Serving time	Company name	Position
August 2004 to present	China Oriental Group Company Limited (Stock code: 581), a company listed on the Hong Kong Stock Exchange[1]	Independent non-executive director
August 2004 to present	Wai Kee Holdings Limited (Stock code: 610), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
August 2006 to present	Digital China Holdings Limited (Stock code: 861), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
October 2013 to present	Integrated Waste Solutions Group Holdings Limited (Stock code: 923), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
July 2015 to present	Greenheart Group Limited (Stock code: 94), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
April 2016 to present	GCL- Poly Energy Holdings Limited (Stock code: 3800), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
March 2017 up to present	China New Higher Education Group Limited (中國新高教集團有限公司) (Stock code: 2001), a company listed on the Hong Kong Stock Exchange	Independent non-executive Director
March 2017 up to present	Hilong Holding Limited (海隆控股有限公司) (Stock code: 1623), a company listed on the Hong Kong Stock Exchange	Independent non-executive Director

Mr. Wong obtained a master's degree of management from Jinan University (暨南大學) in Guangdong Province, the PRC, in June 2005.

Mr. Yin Xiaobing (尹曉冰), aged 43, joined our Group in June 2016 and was appointed as an independent non-executive Director on June 23, 2016. Mr. Yin participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management. He is currently the chairman of the nomination committee, and a member of the strategy and investment decision committee, the remuneration and appraisal committee and the audit committee of our Company.

Mr. Yin currently serves as an associate professor of School of Business Administration and Tourism Management at the Yunnan University. He is the head of financial management department, and a postgraduate tutor for master students. Mr. Yin was a visiting scholar of the Sloan School of Management at the Massachusetts Institute of Technology. He is a non-practicing member of Chinese Institute of Certified Public Accountants.

Note:

(1) According to an announcement published by the Stock Exchange dated July 27, 2016, trading of the shares of China Oriental Group Company Limited ("**China Oriental**") has been suspended since April 29, 2014 due to insufficient public float of China Oriental's shares. The Stock Exchange had commenced procedures to cancel China Oriental's listing on the ground that it had insufficient securities in the hands of the public for a prolonged period, and unless China Oriental remedied the public float issue by January 27, 2017. China Oriental subsequently restored its public float on January 27, 2017 and resumed trading on February 1, 2017.

Mr. Yin serves as a director in the following companies listed on the Shenzhen Stock Exchange:

Serving time	Company name	Position
April 2013 to present	Yunnan Yuntou Ecology and Environment Technology Co., Ltd. (雲南雲投生態環境科技股份有限公司, formerly known as Yunnan Green Land Biotechnology Co., Ltd. (雲南綠大地生物科技股份有限公司)) (Stock code: 002200)	Independent non-executive director
May 2014 to present	Yunnan Aluminum Co., Ltd. (雲南鋁業股份有限公司) (Stock code: 000807)	Independent non-executive director
June 2016 to present	Yunnan Copper Industry Limited (雲南銅業股份有限公司) (Stock code: 000878)	Independent non-executive director

Mr. Yin currently also serves as the general manager at Yunnan Tianshu Yuheng Equity Investment Fund Management Co., Ltd. (雲南天樞玉衡股權投資基金管理有限公司), a director at Kunming Jiahu Real Estate Co., Ltd. (昆明佳湖房地產有限公司), the chairman of the board of directors of Kunming Zhongbei Financing Guarantee Company (昆明中北融資擔保公司), and a director at Yunnan Shennong Agricultural Industry Group Co., Ltd. (雲南神農農業產業集團股份有限公司) and Yunnan Radio and Television Networks Group Co., Ltd. (雲南廣電網絡集團有限公司).

Mr. Yin obtained a bachelor's degree in applied mathematics from Yunnan University (雲南大學) in Yunnan Province, the PRC, in June 1997, a master's degree in management from Yunnan University (雲南大學) in July 2000, and a doctorate degree in political economy from Yunnan University (雲南大學) in December 2012.

Mr. He Xifeng (何錫鋒), aged 54, joined our Group in June 2016 and was appointed as an independent non-executive Director on June 23, 2016. Mr. He participates in making significant decisions and advises on corporate governance, connected transactions, and various matters of Directors and senior management. Mr. He is currently the chairman of the remuneration and appraisal committee and a member of the nomination committee of our Company.

Mr. He currently serves as the chief partner and previously served as the legal representative and the head of Yunnan Weizhen Law Office (雲南唯真律師事務所). Mr. He serves as a legal counsel of several government agencies, public institutions and associations, including the Law Committee of the People's Congress in Yunnan Province (雲南省人民代表大會法制委員會), Yunnan Legal System Construction Network Center (雲南法制建設網絡中心) and Yunnan Police Officer School (雲南警官學校).

Mr. He graduated from Yunnan University (雲南大學) in Yunnan Province, the PRC majoring in law in December 1990 and from Yunnan Normal University (雲南師範大學) with a master's degree of history in Yunnan Province, the PRC, in June 1996.

4. SUPERVISORS

Mr. Na Zhiqiang (那志強), aged 55, is the chairman of our Board of Supervisors and an employee representative Supervisor, responsible for leading the daily work of our Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Na joined our Group in February 1990. In January 19, 2011, he was appointed as the chairman of our Board of Supervisors and an employee representative Supervisor. Mr. Na has over 25 years' working experience in the wastewater treatment industry.

Mr. Na worked successively as office manager, assistant to plant manager, and the plant manager of Kunming No. 1 Water Purification Plant from February 1990 to December 2007. From January 2008 to June 2009, Mr. Na served as the deputy general manager at Kunming Municipal Wastewater Treatment Co. Ltd., our wholly-owned subsidiary. From June 2009 to June 2011 he served as the manager of general affairs department at the Controlling Shareholder.

Mr. Na graduated from the Communist Party China Yunnan Provincial Committee School (中國共產黨雲南省委員會黨校) in Yunnan Province, the PRC, in December 2004, majoring in economics and management.

Mr. Yao Jianhua (姚建華), aged 58, joined our Group in November 1995 and has been an employee representative Supervisor of our Company since January 19, 2011 in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Yao has over 28 years' working experience in the wastewater treatment industry. Since June 2005, Mr. Yao has been the general manager of Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company. Mr. Yao has also been the legal representative, executive director and general manager at Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company, since June 2005.

Prior to joining our Group, Mr. Yao served successively as the section clerk and deputy section chief of Kunming Municipal Facilities Management Cashier Office (昆明市市政設施收費管理處) from February 1988 to February 1998, and deputy chief of the Management Cashier Office of Kunming City Drainage Company Limited (昆明城市排水公司收費管理處) from February 1998 to June 1999.

Mr. Yao graduated from Chinese People's Liberation Army Kunming Army College (中國人民解放軍昆明陸軍學院) in Yunnan Province, the PRC, majoring in political theory in July 1999.

Mr. Shao Wei (邵偉), aged 36, joined our Group in May 7, 2016 and is a Supervisor of our Company in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Shao works as the accounting manager of planning and financing department of Kunming DIG, responsible for corporate finance and accounting affairs. Mr. Shao has over ten years' working experience in the corporate finance management.

Mr. Shao worked at Yunnan Yatai Electronic Information Technology Co., Ltd. (雲南亞太電子信息技術有限公司) from March 2004 to March 2009. He worked at the financial department of and served as the deputy director of legal and risk control department of Yunnan Electrical and Mechanical Equipment Corporation (雲南省機電設備總公司) from May 2010 to August 2011 and May 2012 to November 2015 respectively. He worked at financial department of the Yunnan Yunrui Automobile Sales and Service Co., Ltd. (雲南雲瑞汽車銷售服務有限公司) from August 2011 to May 2012, responsible for financial management.

Mr. Shao graduated from Kunming University of Science and Technology (昆明理工大學) in Yunnan Province, the PRC, majoring in accounting computerization in July 2010. He received a certificate in accounting (intermediate level) in September 2010.

5. SENIOR MANAGEMENT

Each member of our senior management satisfies the qualification requirements under the relevant PRC laws and regulations for his or her respective position. The senior management is responsible for the day-to-day management our business. The following table sets forth information regarding our senior management:

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Ms. Guo Yumei (郭玉梅)	49	Chairperson; Executive Director and General Manager (Chairperson of the strategy and investment decision committee)	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on June 23, 2016	July 1990	None

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Mr. Mei Yili (梅益立)	55	Deputy General Manager	Responsible for the management of our sludge resource utilization, solid waste disposal and production safety	January 29, 2015	May 1997	None
Mr. Luo Yun (羅雲)	38	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on June 23, 2016	June 2013	None
Mr. Yang Yang (楊陽)	44	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, capital operation and securities affairs, as well as leading the work of our Company's financial planning department and securities affairs department	January 29, 2015	January 2015	None

Ms. Guo Yumei (郭玉梅) is an executive Director, chairperson of the board, and general manager of our Company. Please see the section headed "Profiles of Directors, Supervisors and Senior Management – 1. Executive Directors" in this report for details of her biography.

Mr. Mei Yili (梅益立), aged 55, joined our Group in May 1997 and has been the deputy general manager of our Company since January 29, 2015, responsible for the management of our Company's sludge resource utilization, solid waste disposal and production safety.

From June 2005 to June 2013, Mr. Mei served as the deputy general manager, the general manager, and an executive director of Kunming Wastewater Treatment and Operation Co. Ltd. (昆明城市污水處理運營有限責任公司). From January 2008 to June 2013, he served as the general manager and executive director of Kunming Wastewater Treatment and Operation Co. Ltd. (昆明城市污水處理運營有限責任公司). From August 2012 to June 2013, he served as the deputy general manager of the Company. From June 2013 to January 2015, he served as the deputy chief engineer of the Controlling Shareholder.

Mr. Mei obtained a bachelor's degree of engineering majoring in railway cable communication from Department of Telecom and Automatic Control, Lanzhou Tiedao Institute (蘭州鐵道學院) in Gansu Province, the PRC, in January 1982.

Mr. Luo Yun (羅雲) is an executive Director and the deputy general manager of our Company. Please see the section headed "–Profiles of Directors, Supervisors and Senior Management–Executive Directors" in this report for details of his biography.

Mr. Yang Yang (楊陽), aged 44, joined our Group in January 2015 and has been the chief financial officer of our Company since January 29, 2015, responsible for the management of the Company's finance, capital operation and securities, as well as leading the work of the Company's financial planning department and securities department. Mr. Yang has also been appointed as one of our joint company secretaries and our board secretary in June 2016.

From January 2005 to April 2008, he served as the chief financial officer of Sichuan Province Chengdu Yunnei Power Co., Ltd. (四川省成都雲內動力有限公司). From May 2008 to May 2012, he served as the chief financial officer of Kunming Yunnei Power Co., Ltd. (昆明雲內動力股份有限公司). He served as the deputy factory director of Yunnan Gas Turbine Plant (雲南內燃機廠) from May 2012 to May 2013; the director and the deputy general manager of Yunnan Yuxi City Fuxian Lake Protection and Development Investment Co., Ltd. (雲南省玉溪市撫仙湖保護開發投資有限責任公司) from May 2013 to January 2015 respectively.

Mr. Yang graduated from Kunming Metallurgy College (昆明冶金高等專科學校) in Yunnan Province, the PRC in June 1991, majoring in corporate management (finance and accounting). He also obtained an executive master of business administration degree from Yunnan University (雲南大學) in Yunnan Province, the PRC, in June 2014.

Except as disclosed above:

(a) none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business;

(b) none of our Directors, Supervisors and senior management has been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this report; and

(c) there is no other information that needs to be brought to the attention to the Shareholders under Rule 13.51(2) of the Hong Kong Listing Rules.

6. JOINT COMPANY SECRETARIES

Mr. Yang Yang (楊陽) and Mr. Chiu Ming King (趙明璟) are our joint company secretaries.

Mr. Yang Yang (楊陽) is also the chief financial officer of our Company. Please see the section headed "Directors, Supervisors and Senior Management–Senior Management" in this report for details of his biography.

As Mr. Yang does not possess the qualifications as stipulated under Rules 3.28 and 8.17 of the Listing Rules, we have applied for and have been granted a waiver by the Hong Kong Stock Exchange from strict compliance with the aforementioned Listing Rules. See section headed "Waivers from Compliance with the Listing Rules" in the Prospectus for details.

Mr. Chiu Ming King (趙明璟) currently serves as the executive director of Corporate Services of Vistra Corporate Services (HK) Limited. He has over 10 years of experience in the company secretarial field and provides professional services to customers of various listed companies.

Mr. Chiu has been an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries ("**HKICS**") since 2003 and became a fellow member of the HKICS since September 2015. He currently serves as a member of the Membership Committee and Professional Services Panel of HKICS.

Mr. Chiu obtained a bachelor of arts from University of Toronto in Toronto, Canada, in June 1999 and received a master of arts in professional accounting and information systems from City University of Hong Kong, in Hong Kong, in November 2003.

CHAPTER EIGHT REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of the Group hereby submit their report together with the audited financial statements of the Group for the year ended December 31, 2016.

I. BUSINESS REVIEW

1. Operating Environment and Prospects

We are a leading municipal wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC, and a provider of integrated water-related services, including running supply services, in China's water industry. We enjoy exclusive rights to provide wastewater treatment services in Kunming and certain other parts of China. According to Frost & Sullivan, we are ranked first in Yunnan Province in terms of the capacity of wastewater treatment and annual capacity for wastewater treatment as of December 31, 2015. Since our business mode is based on the concession arrangement, technology, the capability of project implementation, and expansion in respect of servicing regions, we have achieved stable income and steady business growth.

2016 marks the beginning for the "13th Five-Year Plan". The "13th Five-Year Plan of the Chinese government has called for the comprehensive improvement of eco-environmental quality as one of its main goals and overall philosophy. The Chinese government has expanded the overall layout of the development strategy from the "four-in-one" of economic development, political development, cultural development and social development into the "five-in-one" with the inclusion of the development of ecological civilization for the first time. Centering around this new objective, overall planning and deployment have been carried out from different aspects of comprehensive environmental management, ecological security mechanism and green environmental protection industry development. On the one hand, the strengthening support to environmental protection industry by way of favourable government policies demonstrates that China is determined to continue tightening pollution control and enhancing awareness of improvement of the environment, and on the other hand, it also provides new and further opportunities and a broader platform for the long-term and sustainable development of the environmental protection industry.

In December 2016, the PRC government introduced the National Urban Wastewater Treatment and Recycling Facilities Construction Plan. During the 13th Five-year Plan Period (《「十三五」全國城鎮污水處理及再生水利用設施建設規劃》) which states that during the 13th Five-year Plan Period, it is to further coordinate the planning and reasonable layout, and to make greater contribution, for purposes of changing the mode of the construction of urban wastewater treatment from "scaled growth" to "quality and efficiency enhancement". As a result thereof, the safeguarding capability and servicing level of the PRC urban wastewater treatment facilities will be enhanced and upgraded completely, enabling the public to really feel the effectiveness of the improvement made to the quality of the water environment.

During the Reporting Period, the environmental protection industry in China continued to develop favorably under the positive economic outlook of China with the following major changes: (1) nowadays, the implementation of environmental protection projects places more emphasis on its goal of improving environmental quality than on the production capacity and paramount importance is given to the improvement of environmental corporate governance, whether in terms of the government's planning or the monitoring system; (2) the investment in the environmental protection industry shifts from focusing on the quantity of the outputs to the quality of the outputs and from the demands of the industry to the changes in the supply and demand of the industry; and (3) the robust development of the environmental protection industry is continuously driving the growth of segment market, such as black and odorous water treatment, sponge city construction and development, soil remediation technologies, carbon trading and other new markets having shown enormous business potential. It is expected that the environmental protection industry will enter into a new phase of digital upgrade with the introduction of new concepts such as smart environmental technology and digital environmental protection.

Driven by the state policies, it is expected that there will be significant market opportunities and development potential for the future of the industries of water supply services. Wastewater treatment, reclaimed water and water supply industry will benefit from the rapidly accelerating urbanization in China and the policy support of the Chinese government for the overall environmental protection industry. The Board expects that the level of development and scale and growth of the industries will be further expanded and investors in the capital markets will also gradually focus more on the environmental protection industry.

2. Key Financial Ratios

The following table shows some major financial ratios of the Group:

	As of or for the year ended December 31,	
	2016	2015
Gross profit margin[1]	**46.5%**	45.8%
Net profit margin[2]	**30.1%**	28.8%
Return on equity[3]	**11.0%**	10.7%
Return on total assets[4]	**6.0%**	4.9%
Current ratio[5]	**62.6%**	95.6%
Quick ratio[6]	**61.7%**	95.2%
Net gearing ratio[7]	**30.1%**	28.0%

Notes:

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

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

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

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

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

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

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

Gross profit margin and net profit margin

Please refer to "Management Discussion and Analysis–IV. Financial Review–1. Consolidated Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit margin during the Reporting Period.

Return on equity

Our return on equity has remained stable during the Reporting Period when compared with that of 2015, primarily reflecting the consistency of our financial performance and overall liability position.

Return on total assets

Our return on total assets increased from 4.9% in 2015 to 6.0% in 2016, primarily due to a decrease in total assets resulting from repayment of loans.

Current ratio and quick ratio

Our current ratio and quick ratio decreased from 95.6% and 95.2% as of December 31, 2015 to 62.6% and 61.7% as of December 31, 2016 respectively. The decreases were primarily due to the capital-intensive nature of our industry and the increasing amount of borrowings we undertake during the Reporting Period to finance our business expansion, as well as a decrease of RMB640.7 million in cash balance as of December 31, 2016 as compared with that of December 31, 2015.

Gearing ratio

Please refer to "Management Discussion and Analysis–IV. Financial Review – 4. Indebtedness" for a discussion of the factors affecting our gearing ratio during the Reporting Period.

3. Laws, Regulatory and Compliance Matters

Our operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. As for our compliance measures, we aim to meet regulatory and industrial standards of the relevant central and local government authorities and our industry associations.

As of the Latest Practicable Date, there are no material pending or threatened litigation matters or other proceedings, and the Group is not involved in any litigation or other proceedings that we believe would materially and adversely affect our business, financial condition or results of operations.

Directors have confirmed that during the Reporting Period, save as the ownership right of some property of the Group and licenses and permits being in non-compliance (and such non-compliance had no material and adverse impact on the Group and please refer to the Prospectus for more details), the Group had complied with the applicable PRC laws and regulations in all material respects, and did not have any incidents of material non-compliance, and had obtained all relevant permits, approval documents, qualifications, authorizations and approvals upon examination material to our business operations.

4. Major Risk Factors

The major risks that the Company's business is exposed to are as follows:

Market Risk

Our activities expose us to a variety of financial market risks: credit risk, liquidity risk, interest rate risk and foreign exchange risk. Our overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We currently do not use any derivative financial instruments to hedge against certain risk exposures.

Credit risk

The carrying amounts of cash and cash equivalents, term deposits with an initial term of over three months, trade and other receivables and receivables under service concession arrangements included in the Financial Information represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control our potential exposure to recoverability problem.

All of our cash and cash equivalents and term deposits with an initial term of over three months will be deposited in the major financial institutions in the PRC, which our directors believe are of high credit quality.

For trade and other receivables and receivables under service concession arrangements, our customers are primarily local governments and the PRC state-owned entities and our management believes that the credit risk is limited.

Liquidity risk

Our objective is to maintain sufficient cash and sources of funding through available banking facilities and maintain flexibility in funding by maintaining committed credit lines. We had net current liabilities of RMB466.2 million as of December 31, 2016. With respect to our future capital commitments and other financing requirements, we had unutilized banking facilities of RMB740.0 million as of January 31, 2017.

To manage the liquidity risk, our management monitors rolling forecasts of our liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flows. We expected to fund the future cash flow needs through cash flows generated internally from operations and borrowings from financial institutions.

Interest rate risk

Interest rate risk is a risk at which the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates is primarily related to our interest-bearing borrowings and financial lease payables.

Borrowings obtained at variable rates expose us to cash flow interest-rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We have not hedged against our cash flow or fair value interest rate risk.

Foreign exchange risk

Our activities do not expose us to significant foreign exchange risk because we principally operate in the PRC and RMB is the currency of the primary economic environment in which we operate our business. However, there will be foreign exchange risk involved in relation to the Global Offering as the Global Offering will be conducted in currencies other than RMB. There will also be foreign exchange risk involved in our anticipated businesses abroad.

5. Significant Subsequent Events

We entered into a framework agreement on June 1, 2016 to acquire 100.0% equity interests in three wastewater treatment companies in Jiangsu Province, which had an aggregate designed wastewater treatment capacity of 50,000 m^3 per day. On October 30, 2016, we entered into three share transfer agreements thereby to acquire such three foregoing wastewater treatment companies for a total consideration of RMB80.0 million. These transactions were completed in January 2017 and such three companies have been consolidated into the Group thereafter. These acquisitions and development would not produce any significant financial impact on the Group individually or in an aggregate.

6. Relationship with Employees

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

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

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

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

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

7. Relationship with Customers

Customers of our wastewater treatment services were primarily local governments in Yunnan Province, the PRC. Customers of our reclaimed water supply services were municipal government agencies, public parks, and residential property management companies. Customers of our running water supply service were generally local residents, commercial and industrial users and other institutions located in the areas covered by our concession agreements.

Our largest customer during the Reporting Period was the Kunming Finance Bureau. The revenue attributable to our largest customer for approximately RMB487.0 million, accounting for approximately 53.2% of the total revenue of the Group. During the Reporting Period, the revenue attributable to our top five largest customers was approximately RMB814.0 million, accounting for 89.0% of the total revenue of the Group.

Our revenue mainly comes from wastewater treatment service in Kunming. The wastewater treatment fee paid to us came either from government purchase, public procurement, or direct collection from individuals and entities using self-supplied water sources. Of those fees, payment from government purchase comes directly from the Kunming Finance Bureau which was our largest customer during the Reporting Period; payment from public procurement is collected by Kunming CGE Water Supply Co., Ltd., which was the running water supplier in Kunming main city area and our second largest customer during the Reporting Period. Specifically, end users of running water in Kunming main city area would pay a statutory wastewater treatment fee to Kunming CGE Water Supply Co., Ltd., and any difference between the amount that we are entitled to receive under the concession agreement and the amount we actually received from public procurement and direct collection would be paid to us by the Kunming Finance Bureau through government purchase.

During the Reporting Period, we also provided management services to our Controlling Shareholder. Our other major customers included the Yiliang County and Shidian County Governments, to whom we provided wastewater treatment and construction services under the relevant concession agreements, Fumin Industrial Park State-owned Assets Management Co. Ltd., to which we provided construction service under the BT model (the construction of Fumin Industrial Park Running Water Supply Plant was completed in 2014 and therefore we did not recognize any revenue afterwards), and Kunming Panasia Lakes Integrated Regulation Co., Ltd., to which we provided transportation services.

Except for our Controlling Shareholder and Kunming Panasia Lakes Integrated Regulation Co., Ltd., who is controlled by our Controlling Shareholder, all of our five largest customers are independent third parties, and none of our Directors, their associates or any Shareholder (who, to the knowledge of our Directors, owned more than 5% of our Company's share capital as of the Latest Practicable Date) had any interest in any of our five largest customers during the Reporting Period. We did not have any major customers who were also our suppliers.

8. Relationship with Suppliers

Our principal suppliers are power suppliers who provide electricity to our facilities, construction contractors who designed and constructed our facilities and suppliers of raw materials including wastewater treatment chemicals and other equipment maintenance replacements. We have been working with our major suppliers for a period ranging from one to more than five years.

During the Reporting Period, our largest supplier was the Kunming Power Supply Bureau of Yunnan Power Grid Co. Our purchases from our largest supplier were RMB74.9 million, accounting for approximately 35.1% of our total purchases. Our purchases from our top five suppliers for were RMB147.4 million, accounting for approximately 69.1% of our total purchases.

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

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

Except for our utility service providers, we have established a centralized procurement policy for the selection of suppliers. Under such policy, our subsidiaries are required to solicit bids from different suppliers, and select the suppliers based on price, quality, and timely delivery of the products. All supply contracts will be required to be reviewed and approved by the headquarters which will conduct periodic tests to check the quality of the delivered products.

During the Track Record Period, we had sourced our raw materials from a few local suppliers located near Kunming in order to benefit from the economies of scale and proximity, which allowed for faster and cheaper delivery of raw materials. We generally pay our suppliers within 10 to 15 days after receiving the delivery of goods, subject to internal review and approval. For our major suppliers, we often settle accounts monthly, and as of December 31, 2016, we did not have any payments in arrears.

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

9. Environmental Policies and Performance

We must observe the national and local environmental protection laws and regulations in China, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Water Law of the PRC (《中華人民共和國水法》), the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) and Yunnan Dianchi Lake Protection Regulations (《雲南省滇池保護條例》).

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

We acquired a wastewater treatment plant located in Ziyun, Guizhou Province, Ziyun Wastewater Treatment Plant, in January 2016. Anshun Environmental Protection Agency (安順市環境保護局), which is the environmental authority supervising the area where this plant is located, fined the plant during an inspection visit an amount of RMB60,000 in May 2016 for the plant's violation of environmental regulations. It was alleged that individuals at the plant tampered with environmental inspection data by interfering the effluent NH3-N analyzer. The incident occurred during the transitional period after our acquisition, when operation of such plant was still managed by the previous management team. The plant manager admitted the responsibility and resigned as a result of the incident; since then, we (i) appointed our own management team to supervise the operations of the plant, (ii) requested third-party professionals to oversee the plant's compliance with environmental laws and regulations and (iii) requested the plant's new management to adopt and vigorously implement our internal policies and procedures in respect to business conduct and quality control, so as to prevent similar incidents from occurring going forward. Our PRC legal counsel confirmed that there would not be additional fines or penalties imposed on us in relation to this incident. This is a one-off incident; other than this incident, we have not had any other violations of environmental laws or regulations.

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

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

II. BUSINESS PERFORMANCE

The audited results of the Company and its subsidiaries as for the year ended December 31, 2016 are stated in page 107 of the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The financial positions of the Company and its subsidiaries as for the year ended December 31, 2016 are stated in pages 105 to 106 of the Consolidated Statement of Financial Position. The consolidated cash flows of the Company and its subsidiaries as for the year ending December 31, 2016 are stated in page 109 of the Consolidated Statement of Cash flow.

The discussion and analysis on the Group's business performance and financial position for the current year are stated under "Management Discussion and Analysis" on pages 15 to 41 hereof this Annual Report.

III. SHARE CAPITAL

As of December 31, 2016, the Company had issued 720,000,000 Domestic Shares. As of the Listing Date, the Company had issued 1,028,572,000 shares of RMB1.00 each (comprising 689,142,000 Domestic Shares and 339,430,000 H Shares).

IV. ISSUANCE OF CORPORATE BONDS

We issued corporate bonds with par value of RMB700.0 million for a term of seven years, bearing interest at 4.35% per annum on December 25, 2015. At the end of the fifth year, the Company may adjust the interest rates for the remaining two years. In the event that investors disagree at the adjustment made to the interest rates, they may choose to demand for an early redemption of corporate bonds outstanding. The proceeds from the issuance of the bonds will all be used for four projects, namely the second sewage treatment plant in Yiliang County and the supporting pipe network project, the Yunnan Water Quality Monitoring Center and the construction of the supporting Sewage Treatment Plant Management Building, the acquisition of Luolong River and the Yuyuhe Sewage Treatment Plant (including reclaimed water plant) and the acquisition of the tenth sewage treatment plant in Kunming City.

V. PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the Company itself did not redeem any of its securities and the Company or any of its subsidiaries did not sell or purchase any of the Company's securities listed on the Hong Kong Exchange.

VI. PRE-EMPTIVE RIGHT TO ACQUIRE

In accordance with the Company Law of the PRC, other laws and regulations and the provisions of the Articles of Association of the Company, there are no provisions in relation to the Company's shareholders' entitlement to the pre-emptive right to acquire.

VII. RESERVE

The details in relation to the changes in the reserve of the Company for the current year are stated under Note 18 of the Financial Statements. The details in relation to the reserve available for distributing to the shareholders are stated under Note 19 of the Financial Statements.

VIII. PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment mainly include those property, plant and equipment that we operate in our business and are located in China, including such property leased during the operational lease for our business operating under concession.

As of December 31, 2016, our property, plant and equipment amounted to RMB2,369.1 million, with a year-to-year growth of 20.7%. This was mainly because our Controlling Shareholder transferred Kunyang, Kucheng and Yunihe Water Purification Plants to us and Kunming Xindu Investment Co., Limited (昆明新都投資有限公司) (the parent company of Kunming Xindu Property Co., Limited (昆明新都置業有限公司), our shareholder) transferred Luolonghe and Laoyuhe Water Purification Plants to us.

IX. PROFIT DISTRIBUTION

The Board recommends the distribution of a final dividend ("**2016 Final Dividend**") of RMB0.10 per share (tax included) (RMB102,857,200 in total (tax included)) (2015: RMB252.0 million for the year ended 31 December 2016 to all shareholders, details of which are set out in Note 32 to the Financial Statements. The dividend of Domestic Shareholders shall be declared to be distributed and paid in RMB while the dividend of H Share Shareholders shall be declared to be distributed in RMB but paid in Hong Kong Dollars, as the exchange rate being subject to the average exchange published by the People's Bank of China within one week prior to the Annual General Meeting intended to be held by the Company on June 19, 2017.

The proposal regarding the distribution of 2016 Final Dividend shall be confirmed subject to the approval of the general meeting for 2016 (the "**2016 Annual General Meeting**").

According to the provisions of the "Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas H-share Holders (Non-resident Enterprise Shareholders) from Chinese Resident Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (Guo Shui Han [2008] No.897) issued by the State Administration of Taxation (國家稅務總局), an enterprise income tax at the rate of 10% shall be levied on dividends paid in or after 2008 by Chinese resident enterprises to overseas H-share shareholders that are non-resident enterprises.

Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by nonresident enterprise shareholders and therefore will be subject to the withholding of the enterprise income tax. If H shareholders intend to change its shareholder status, please enquire about the relevant procedures with your agents or transferee agent. The Company will strictly comply with the law or the requirements of the relevant government authority to withhold and pay enterprise income tax and individual income tax on behalf of the relevant shareholders based on the register of members for H shares of the Company as at the Dividend Registration Date. The Company assumes no responsibility and will not entertain any claims arising from any failure to timely determine, or inaccurate determination of, the status of the shareholders or any dispute over the arrangement of withholding and paying enterprise tax and individual income tax on behalf of such shareholders. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the H shares of the Company.

If the individual H shareholders who are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for dividend with China under the relevant tax treaties, the Company should withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. Should the individual H shareholders are residents of the countries which had an agreed tax rate of less than 10% with China under the relevant tax treaties, the Company shall withhold and pay individual income tax on behalf of the relevant H shareholders at a rate of 10%. In that case, if the relevant individual H shareholders wish to apply for a refund of the additional amount of tax withheld and paid, the Company can assist the relevant H shareholders to handle the application for the underlying preferential tax benefits pursuant to tax treaties.

In the case that the individual holders of H shares are residents of the countries which had an agreed tax rate of 20% with China under the tax treaties, or which has not entered into any tax treaties with China, or otherwise, the Company shall withhold and pay the individual income tax on behalf of the relevant H shareholders at a rate of 20%.

For confirming that the Shareholders are entitled to attend the 2016 Annual General Meeting and vote at the Meeting:

Deadline for submitting the share transfer documents:	4:30 pm on May 19, 2017 (Friday)
Date of closure of register of members:	from May 20, 2017 (Saturday) to and until June 19, 2017 (Monday) (inclusive of the first day and the last day)
Date of Record:	June 19, 2017 (Monday)
Date for convening 2016 Annual General Meeting:	June 19, 2017 (Monday)

For confirming that the Shareholders are entitled to the 2016 Final Dividend:

Deadline for submitting the share transfer documents:	4:30 pm on June 22, 2017 (Thursday)
Date of closure of register of members:	from June 23, 2017 (Friday) to and until June 28, 2017 (Wednesday) (inclusive of the first day and the last day)
Dividend Registration Date:	June 28, 2017 (Wednesday)

X. BANK BORROWINGS AND OTHER BORROWINGS

The details in relation to the bank borrowings and other borrowings of the Company and its subsidiaries As of December 31, 2016 are stated under Note 20 of the Financial Statements.

XI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board of Directors currently consists of seven Directors, among whom, two are executive Directors and two are non-executive Directors and three are independent non-executive Directors. The Directors have been appointed by the Shareholders of the Company with a term of three years, after which they may be re-elected.

The Board of Supervisors currently consists of three Supervisors, among whom, two are employee representative Supervisors. The remaining Supervisor has been appointed by the Shareholders and the current employee representative Supervisors have been appointed by the representatives of the labor union. The Supervisors are appointed for a term of three years, after which they may be re-elected.

The information regarding the Company's Directors and Supervisors are set out as follows:

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Ms. Guo Yumei (郭玉梅)	49	Chairperson; Executive Director and General Manager (Chairperson of the Strategy and Investment Decision Committee)	Responsible for strategic decision making and management of operations of the Company	Appointed as Executive Director and General Manager in January 2011, and as Chair-person on June 23, 2016	July 1990[1]	None

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Mr. Luo Yun (羅雲)	38	Executive Director and Deputy General Manager	Supervise the Company's investment strategies, market expansion, project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on June 23, 2016	June 2013	None
Mr. Zeng Feng (曾鋒)	52	Non-executive Director	Participates in the development of business strategies and advise on audit and internal control matters	January 19, 2011	January 2011	None
Ms. Song Hong (宋紅)	53	Non-executive Director	Participates in the development of the business strategies of the Company	June 23, 2016	June 2016	None
Mr. Wong Man Chung Francis (黃文宗)	52	Independent Non-executive Director (Chairperson of the Audit Committee)	Participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management	June 23, 2016	June 2016	None
Mr. Yin Xiaobing (尹曉冰)	43	Independent Non-executive Director (Chairperson of the Nomination Committee)	Participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management	June 23, 2016	June 2016	None

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Mr. He Xifeng (何錫鋒)	54	Independent Non-executive Director (Chairperson of the Remuneration and Appraisal Committee)	Participates in making significant decisions and providing advice on corporate governance, connected transactions, and various matters of Directors and senior management	June 23, 2016	June 2016	None
Mr. Na Zhiqiang (那志強)	55	Chairperson of the Board of Supervisors; Employee Representative Supervisor	Responsible for leading the daily work of the Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings	January 19, 2011	February 1990[2]	None
Mr. Yao Jianhua (姚建華)	58	Employee Representative Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings	January 19, 2011	November 1995[3]	None

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Mr. Shao Wei (邵偉)	36	Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings	May 7, 2016	May 2016	None

Notes:

(1) Ms. Guo joined the Kunming Municipal Utility Tariff Bureau (昆明市政公用局排水收費處) in July 1990, which subsequently merged into Kunming City Drainage Co., Ltd., a predecessor of the Group. Before the establishment of the Company in January 2011, Ms. Guo was responsible for the management of the Company through her positions in the Controlling Shareholder and subsidiaries.

(2) Mr. Na joined Kunming No. 1 Water Purification Plant in February 1990.

(3) Mr. Yao joined the management cashier office of Kunming City Drainage Co., Ltd., a predecessor of the Group in November 1995.

The information regarding the Company's Senior Management are set out as follows:

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Ms. Guo Yumei (郭玉梅)	49	Chairperson; Executive Director and General Manager (Chairperson of the Strategy and Investment Decision Committee)	Responsible for strategic decision making and management of operations of the Company	Appointed as Executive Director and General Manager in January 2011, and as Chair-person on June 23, 2016	July 1990	None

Name	Age	Position	Roles and Responsibilities	Appointment Date	Date of Joining Our Group	Relationship with Other Directors, Supervisors and Senior Management
Mr. Mei Yili (梅益立)	55	Deputy General Manager	Responsible for managing the Company's sludge resources utilization, solid waste disposal and production	January 29, 2015	May 1997	None
Mr. Luo Yun (羅雲)	38	Executive Director and General Manager	Supervise the Company's investment strategies, market expansion, project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on June 23, 2016	June 2013	None
Mr. Yang Yang (楊陽)	44	Chief Financial Officer and Board Secretary	Responsible for the management of the Company's finance, capital operation and securities, as well as leading the work of the Company's financial planning department and securities department	January 29, 2015	January 2015	None

The Company has received the confirmation of the Independence issued by the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules and is of the opinion that all independent non-executive Directors are independent of the Company.

Changes to the information of Directors

According to Rule 13.51B(1) of the Listing Rules, and as of the Latest Practicable Date, the changes made to the information disclosed by Directors pursuant to the provisions of paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules are as follows:

– As at March 20, 2017, Mr. Wong Man Chung Francis (黃文宗) has been appointed as the independent non-executive Director of China New Higher Education Group Limited (中國新高教集團有限公司) (Stock code: 2001), a company listed on the Hong Kong Stock Exchange

– As at March 24, 2017, Mr. Wong Man Chung Francis (黃文宗) has been appointed as the independent non-executive Director of Hilong Holding Limited (海隆控股有限公司) (Stock code: 1623), a company listed on the Hong Kong Stock Exchange

XII. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the Directors nor Supervisors of the Company has entered into a service contract with the Company or any of its subsidiaries and such contracts may not be terminated by the employer within one year without the payment of compensation (other than statutory compensation).

XIII. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The details of the remuneration of the Company's Directors, Supervisors and senior management are stated under Note 27 in the Financial Statements. The scope of the remuneration of the senior management officers are as follows:

Range of Remuneration *(RMB'000)*	**Number of Senior Management**
0-500	5
500-1,000	0

XIV. INTERESTS OF DIRECTORS, SUPERVISORS (AND SUCH ENTITIES CONNECTED THEREWITH) IN MAJOR TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

At the end of 2016 or at any time during 2016, all of the Company's Directors, Supervisors (and such entities connected therewith) have no individual interests, directly or indirectly, in the major transactions, arrangements or contracts as established by the Company or any of its subsidiaries.

XV. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETITIVE BUSINESS

During the Reporting Period, none of the Directors, Supervisors nor their Associates (as defined in the Listing Rules) had any competitive interests in such business that is in direct or indirect competition with any of the Group's business.

XVI. THE INTEREST AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2016, the shares of the Company had not been listed on the Stock Exchange and the Company, directors, supervisors and senior management did not apply to the provisions of Section 352 and the Code of Practice of the Securities and Futures Ordinance.

As of the Latest Practicable Date, none of the Directors, Supervisors and senior management had any interest or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As of the Latest Practicable Date, none of the Directors nor Supervisors or their respective spouses or children below 18 have been granted any right to subscribe the shares of the Company or any of its related corporations or to have exercised any such rights.

XVII. INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

As at December 31, 2016, the shares of the Company had not been listed on the Stock Exchange, and the Company and its substantial shareholders did not apply to the provisions of sections 2, 3 and 4 of Part XV of the Securities and Futures Ordinance.

As at the Latest Practicable Date and as far as the Company's Directors knew, the following persons (except for the Company's Directors, the highest administrative officers or Supervisors) had some interest or short positions in the Shares or underlying Shares of the Company which will have to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register placed in the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Identity/Nature of interest	Class of Shares	Number of Shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of Shares of the Company (%)
Kunming Dianchi Investment	Beneficial Owner	Domestic Shares	660,318,635 (long position)	64.20%	95.82%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Interest of Controlled Corporation	H Shares	59,000,000 (long position)	5.74%	17.38%
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial Owner	H Shares	64,770,000 (long position)	6.30%	19.08%

Name of Shareholder	Identity/Nature of interest	Class of Shares	Number of Shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of Shares of the Company (%)
MSDW Investment Holdings (US) LLC	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley UK Group	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley Investments (UK)	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley International Limited	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley International Incorporated	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley International Holdings Inc.	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley Employment Services UK Limited	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley Domestic Holdings, Inc.	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley Capital Management, LLC	Interest of Controlled Corporation	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley & Co. International plc	Beneficial Owner	H Shares	20,365,600 (long position)	1.98%	5.99%
Morgan Stanley	Interest of Controlled Corporation	H Shares	25,840,589 (long position)	2.51%	7.61%
Modern Orient Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.47%

Name of Shareholder	Identity/Nature of interest	Class of Shares	Number of Shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of Shares of the Company (%)
Beijing Enterprises Water Group Limited	Beneficial Owner	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Investments Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Holdings Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Group Company Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Group (BVI) Company Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.47%
Beijing Enterprises Environmental Construction Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.47%

Notes:

(1) The above information disclosed is primarily based on the information provided by the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk).

(2) Pursuant to Section 336 of the Securities and Futures Ordinance, if certain conditions are fulfilled, the shareholders of the Company are required to submit a statement of interest. In the event of changes in the shareholding of the shareholders of the Company, the shareholders will not be required to notify the Company and the Hong Kong Stock Exchange unless certain conditions have been fulfilled, so that the latest shareholding of the shareholders of the Company may be different from the shareholding submitted to the Hong Kong Stock Exchange.

(3) In addition to the above disclosures, as at the Latest Practicable Date, the Company is not aware of any other persons (other than the Directors, Supervisors and top executives of the Company) who have interest or short position in the shares or related shares of the Company and are required to be recorded in the register under the provisions of Section 336 of the Securities and Futures Ordinance.

XVIII.MANAGEMENT CONTRACTS

During the Reporting Period, the Group did not enter into any contracts in respect of the management and administration of all or any significant portion of the business (except for such service contracts entered into with the Group's Directors, Supervisors and all employees) and there existed no such contracts in respect of the management and administration of all or any significant portion of the business (except for such service contracts entered into with the Group's Directors, Supervisors and all employees).

XIX CONNECTED TRANSACTIONS

We have entered into some transactions with the Controlling Shareholder. In accordance with Chapter 14A of the Listing Rules, such transactions have constituted the Connected Transactions or Continuous Connected Transactions of the Company.

1. Connected Transaction – Asset Transfer Agreement

On April 13, 2015, we entered into an asset transfer agreement (the "**Asset Transfer Agreement**") (as supplemented and amended by the First Supplementary Agreement executed on December 30, 2015 and further supplemented and amended by the Second Supplementary Agreement executed on July 27, 2016) with the Controlling Shareholder whereby, the Controlling Shareholder agreed to transfer such interests it held in Kunming No. 10 Water Purification Plant (the "**Target Assets**") to the Company.

Consideration: The consideration for the transfer of the Target Assets is RMB750.17 million, subject to a final determination on the basis of the appraised value of the Target Assets as at the last day of the month when the Target Assets receive confirmation of construction completion, pass inspection and receive acceptance from the relevant authorities, as assessed by a qualified valuer and to be filed with Kunming SASAC.

Payment and Closing: The Controlling Shareholder must immediately transfer the Target Assets to the Company once (i) the Target Assets pass the governmental inspection and successfully obtains the inspection acceptance form by June 30, 2017 and (ii) the internal rate of return on the Target Asset reaches or exceeds 8.0% as agreed by the Company and the Controlling Shareholder. The consideration will be paid by the Company to the Controlling Shareholder in two instalments:

The first instalment of RMB450 million was paid by the Company to the Controlling Shareholder in December 2015; and

The second instalment, being the remainder of the consideration, must be paid by the Company within three months after the transfer of the Target Assets, less the Company's cost of capital for the first instalment of RMB450 million chargeable at a rate of 6.53% per annum and accruing from July 1, 2016 to the date of transfer of the Target Assets. The Company shall reimburse the Controlling Shareholder for its cost of capital at a rate of 6.53% per annum should it be late with the payment of the second instalment of the consideration.

Long stop date: If (i) the Controlling Shareholder fails to satisfy the conditions to closing by June 30, 2017, the Company has the right to terminate the acquisition of the Target Assets, and the Controlling Shareholder must refund the first instalment to the Company, and further compensate the Company for its cost of capital at a rate of 6.53% per annum chargeable on the RMB450 million and accruing from July 1, 2016 to the date when the first installment is fully refunded to the Company.

Our discretionary termination option: The Company may terminate the acquisition of the Target Assets at any time, and the Controlling Shareholder must refund the first instalment to the Company within one month of the Company's termination notice.

Reasons for and benefits of the asset transfer transaction: We are acquiring the Kunming No. 10 Water Purification Plant, because the inlet and outlet water quality monitor system of the Kunming No. 10 Water Purification Plant has obtained the acceptance from the Kunming Environmental Protection Bureau and the plant is close to commencement of commercial operation, and the construction is substantially completed.

The Company paid the first instalment payment of RMB450 million to the Controlling Shareholder in December 2015. As at the Latest Practicable Date, the Company has not made the second instalment payment under the Asset Transfer Agreement (as amended and supplemented), and the transaction has not been completed primarily because the Kunming No. 10 Water Purification Plant has not yet passed the governmental inspection nor obtained the filing form of completion acceptance. The Company anticipates that the transfer of Kunming No. 10 Water Purification Plant to be completed by June 30, 2017. This anticipated timetable, however, is tentative, as the completion is subject to passing governmental inspection and obtaining inspection acceptance form, both of which are beyond our control.

2. Non-exempt Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement, Circular and Independent Shareholders' Approval Requirements

Entrusted Operation and Management Framework Agreement

The Company has entered into certain agreements with the Controlling Shareholder pursuant to which the Company provided certain operation and management services to the Controlling Shareholder in relation to wastewater treatment plants, reclaimed water supply facilities and running water facilities owned by the Controlling Shareholder. Such management and operation service, depending on the development stage of the project, typically includes operating, testing and adjusting the equipment and facilities, arranging operating personnel and experts to maintain the daily operation of such plants and ensure the effluent quality meets the relevant discharge standard, setting up management policies and operation guidelines, chemicals purchase, and sludge transportation and disposal. The Company does not provide construction service to the Controlling Shareholder. It is expected that such transactions will continue after the Listing.

To regulate the terms and conditions under which the Company will provide such operation and management services to the Controlling Shareholder after the Listing, the Company entered into an entrusted operation and management framework with the Controlling Shareholder agreement on April 25, 2016 (the "**Entrusted Operation and Management Framework Agreement**"), for the period from April 25, 2016 to December 31, 2018, as may be amended from time to time. The Entrusted Operation and Management Framework Agreement may, upon mutual written consent between the parties, be extended for an additional term of three years, provided that such renewal is in compliance with the relevant laws and regulations, and the Listing Rules.

We provide our entrusted operation and management services in relation to the wastewater treatment plants in two main stages, which are prior to the wastewater treatment plant completing inspection and acceptance formalities and entering commercial operations, being: (i) the pre-trial operation stage; and (ii) the trial operation stage. If, after the trial operation stage, the Company chooses not to acquire such Excluded Business, the Company will continue to provide entrusted operation and management services to the Controlling Shareholder.

The Controlling Shareholder and the Company may enter into separate individual service agreement(s) and set out specific terms for each transaction to regulate the transactions contemplated under the Entrusted Operation and Management Framework Agreement. Such individual service agreements shall be in accordance with the terms under the Entrusted Operation and Management Framework Agreement, which shall set out the specific terms for each transaction, including the relevant facility, the services to be provided and the service fees pending to be paid. The service fee to be paid under each individual service agreement will be determined on a case-by-case basis pursuant to the following pricing policy:

(1) the fees as prescribed by the PRC government, if any;

(2) where there are no such prescribed fees, such price as may be more favorable to the Company than the then prevailing market price; and

(3) where it is not practical to refer to the market price, the price shall be based on arm's length negotiations on a cost plus basis, allowing for reasonable profits on the costs incurred, including electricity cost, chemicals cost, sludge transportation and processing cost, overhead expense, and equipment maintenance expense. We will charge a service fee that represents a 10% margin over the costs that will be incurred in providing the operation and management services. The 10% margin over such costs was arrived at after reflecting similar transaction between other listed PRC companies and their parent companies in the utility and power industry.

Under the Entrusted Operation and Management Framework Agreement, we shall have the priority to be chosen as the provider of operation and management services by the Controlling Shareholder provided that the terms of service and service fee offered by us are the same as or lower than that offered by a third party or third parties. The Controlling Shareholder may engage a third party and third parties for the provision of operation and management services only if we fail to satisfy the needs of the Controlling Shareholder, or if the terms of service and service fee offered by such third party service provider are more favorable than those offered by us.

Individual Service Agreements

As at the Latest Practicable Date, the Company and the Controlling Shareholder have entered into the following individual service agreements (collectively, the "**Individual Service Agreements**", and each an "**Individual Service Agreement**") in relation to each of the treatment plants constituting the Excluded Business, which are governed by the terms of the Entrusted Operation and Management Framework Agreement. The management fees under each Individual Service Agreement are calculated based on the actual wastewater treatment volume multiplied by the price per cubic meter, which are determined, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins, depending on the historical performance of the relevant plant(s), geographical location of, and the human and technical resources allocated to such plant(s). These Individual Service Agreements are listed as below:

(1) The Kunming No. 9 Water Purification Plant Entrusted Operation Management Agreement

(2) The Kunming No. 10 Water Purification Plant Entrusted Operation Management Agreement

(3) The Kunming No. 11 Water Purification Plant Entrusted Operation Management Agreement

(4) The Baiyuhe Water Purification Plant Entrusted Operation Management Agreement

(5) The Baiyukou Water Purification Plant Entrusted Operation Management Agreement

(6) The Haikou Water Purification Plant Entrusted Operation Management Agreement

(7) The Luolonghe Rain Water Station Entrusted Operation Management Agreement

(8) The Aziying Water Purification Plant Entrusted Operation Management Agreement

(9) The Dianyuanzhen Water Purification Plant Entrusted Operation Management Agreement

(10) The Sayingpan Water Purification Plant Entrusted Operation Management Agreement

(11) The Yunlong Water Purification Plant Entrusted Operation Management Agreement

Annual Caps

Our Directors have estimated that the annual caps for the transactions under the Entrusted Operation and Management Framework Agreement, which include all costs and disbursements payable by us in relation to the operation and management of the various wastewater treatment plants, including the service fees we may charge pursuant to the Entrusted Operation and Management Framework Agreement, for each of the years ending December 31, 2017, 2018 and 2019 would be as follows:

	For the year ending December 31,		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Service fees and reimbursable costs (after tax) to be paid by the Controlling Shareholder to the Company	115,800	130,000	140,000

For the purposes of determining the proposed annual caps for the transactions under the Entrusted Operation and Management Framework Agreement for each of the years ending December 31, 2017, 2018 and 2019, the Directors have considered (i) the historical transaction amounts incurred as set out above, (ii) the costs borne by the Controlling Shareholder during the Reporting Period, (iii) the projected development progress (i.e. at the pre-trial operation stage or after pre-trial operation stage) of each of the wastewater treatment plants constituting the Excluded Business, as the management fees to be paid to our Group for the pre-trial operation are expected to be determined on a cost basis, and after the pre-trial operation stage the management fees are expected to be calculated, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins, higher than the management fees for the pre-trial stage, (iv) the number of Individual Service Agreements, (v) the estimated demand for operation and management services, and (vi) the historical market conditions and the recent economic outlook of the PRC for the three years ended December 31, 2016.

3. Confirmation by the independent non-executive Directors

The independent non-executive Directors of the Company have reviewed each of the aforementioned continuing connected transactions and confirmed that the transactions have been conducted:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as case may be) independent third parties; and

(c) in accordance with relevant agreement governing the relevant transactions, on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

XX. COMPLIANCE WITH NON-COMPETITION AGREEMENT

On April 25, 2016, the Company and Kunming Dianchi Investment, the Controlling Shareholder, entered into the Non-competition Agreement whereby the agreed terms in such Agreement, Kunming Dianchi Investment will not compete against the Group in respect of the relevant business and will urge its associated enterprises not to compete against the Group in respect of the relevant business. Kunming Dianchi Investment granted the Company the option to choose the New Business Opportunities, the option regarding the acquisition of the retained business and new business and the preemptive right to buy. For more specific details, please refer to the section with the heading of “Relationship with the Controlling Shareholder” in the Prospectus of the Company.

The independent non-executive Directors of the Company are responsible for examining, reviewing, considering and determining whether to adopt and accept the New Business Opportunities referred to the Company by Kunming Dian Lake Investment or its subsidiaries, to exercise the option for acquisition and the preemptive right to buy.

Kunming Dianchi Investment has committed that for the year 2016, it has complied with the Non-competition Agreement. The independent non-executive Directors of the Company have examined and reviewed the implementation of the Non-competition Agreement during the year of 2016 and have confirmed that Kunming Dianchi Investment has fully complied with the agreement and there had no violation of agreement.

XXI. RETIREMENT AND EMPLOYEE BENEFIT PLANS

Details of the retirement and employee benefits plans of the Group are set out under Note 26 of the Financial Statements.

XXII. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Being a company listed on the Hong Kong Stock Exchange, the Company is always dedicated to maintaining the corporate governance practices at a high level. During the Reporting Period, the Company had established various director committees and formulated the relevant corporate governance system in accordance with the provisions stated therein the Code of Corporate Governance.

XXIII.PUBLIC FLOAT

Based on publicly available information and to the knowledge of the Directors, there is sufficient public float of at least 25% of the Company's issued shares as at the Latest Practicable Date prior to the date of this Annual Report, in compliance with the requirements of the Listing Rules.

XXIV. DONATIONS

During the Reporting Period, the Company had made donations for charity of RMB473,000 in an aggregate.

XXV. PERMITTED INDEMNITY PROVISIONS

During the Reporting Period and as of the date of the Annual Report for this year, the Company (including but not limited to) had purchased and maintained a group liability insurance for the Directors of the Company and its "Associated Companies" (as defined for such term under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

XXVI. AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the financial statements as for the year ended December 31, 2016 prepared in accordance with International Financial Reporting Standards.

XXVII. AUDITOR

PricewaterhouseCoopers, Certified Public Accountants is appointed as the auditor for the financial statements as for the year ended December 31, 2016 prepared in accordance with International Financial Reporting Standards. Such financial statements prepared in accordance with International Financial Reporting Standards as stated herein this Annual Report have been audited by PricewaterhouseCoopers, Certified Public Accountants and a standard unqualified audit report has been issued.

PricewaterhouseCoopers will retire at the forthcoming AGM and being eligible offer themselves for reappointment.

By report of
the Board of Directors
Guo Yumei (郭玉梅)
Chairperson

Kunming, the PRC, April 25, 2017

CHAPTER NINE CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company has hereby submitted its Corporate Governance Report for 2016 to the shareholders.

I. COMPLIANCE OF THE CODE

The Company focuses on maintaining a high standard of corporate governance for purposes of enhancing the value for shareholders and protecting their interests. The Company has adopted such provisions of the Code as stated in the Corporate Governance Code (the "**Code**") and Corporate Governance Report provided in Appendix 14 to the Listing Rules. Since the Company has not yet been listed during the Reporting Period, the Code does not apply to the Company during the Reporting Period. However, the Company has established and perfected the corporate governance structure in accordance with the Listing Rules and the Code and has set up a series of corporate governance system. The Directors believe that commencing from the Listing Date, the Company has been observing all mandatory provisions of the code as stipulated in the Corporate Governance Code except the provisions of A2.1 (please refer to below for detailed explanation).

The Board of Directors will examine and review, from time to time, the Company's corporate governance practices and operation in order to meet the relevant provisions under the Listing Rules and to protect the shareholders' interests.

II. SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS AND THE RELEVANT EMPLOYEES

The Company has adopted the standard code against which the Directors of Listed Issuers conduct securities transactions as provided in Appendix 10 to the Listing Rules (the "**Standard Code**"), taking such Code against which the Directors of the Company may conduct securities transactions.

Since the Company has not yet been listed on the Hong Kong Stock Exchange during the Reporting Period, the Standard Code does not apply to the Company for the year ending December 31, 2016.

Upon specific enquiry conducted by the Company, all the Directors have confirmed that commencing from the Listing Date, they have been fully observing the Standard Code.

III. BOARD OF DIRECTORS

1. Board of Directors

(a) Composition of Board of Directors

The Board comprises seven Directors, inter alia, including two non-executive Directors, two executive Directors and three independent non-executive Directors.

Pursuant to Rules 19A.54 of the Listing Rules, we have entered into a contract with each of our Directors in respect of, among other things, compliance of relevant laws and regulations, observance of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

The Company has at least three independent non-executive Directors (representing at least one-third of the Board), in compliance with the provisions of the Listing Rules and among whom, at least one independent non-executive Director must possess professional qualifications or accounting knowledge or professional knowledge related to finance management. Moreover, after taking into consideration of the factors regarding the evaluation of the independence of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and the written confirmation of all independent non-executive Directors, the Board of Directors believe that all independent non-executive Directors shall be independent individuals.

The Board of Directors of the Company comprises the following:

Name	Age	Sex	Position	Appointment Date	Term
Ms. Guo Yumei (郭玉梅)	49	F	Chairperson; Executive Director and General Manager	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on June 23, 2016	3 years
Mr. Luo Yun (羅雲)	38	M	Executive Director and Deputy General Manager	Appointed as Deputy General Manager in January 2015 and as Executive Director on June 23, 2016	3 years

Name	Age	Sex	Position	Appointment Date	Term
Mr. Zeng Feng (曾鋒)	52	M	Non-executive Director	January 19, 2011	3 years
Ms. Song Hong (宋紅)	53	F	Non-executive Director	June 23, 2016	3 years
Mr. Wong Man Chung (黃文宗)	52	M	Independent Non-executive Director	June 23, 2016	3 years
Mr. Yin Xiaobing (尹曉冰)	43	M	Independent Non-executive Director	June 23, 2016	3 years
Mr. He Xifeng (何錫鋒)	54	M	Independent Non-executive Director	June 23, 2016	3 years

(b) *Job Duties and Authority of the Board of Directors*

The Board of Directors shall be accountable to the General Meeting and have the duly to report to the General Meeting. The Board of Directors shall be responsible for implementing the resolutions of the General Meeting. The authority of the Board of Directors are expressly stated in the Articles of Association of the Company and the major responsibility of the Board of Directors include: being responsible for convening the General Meeting, implementing the resolutions of the General Meeting, determining the operational plan and investment proposals of the Company, setting up the annual financial budget proposal, final accounts, profit distribution proposal, proposal for increase or decrease of capital and others, deciding on the establishment of the Company's management authority, determining the appointment or dismissal of General Manager, Deputy General Manager and other senior management officers, formulating the basic management system of the Company and determining the establishment of the special committees of the Board of Directors.

(c) *Job Duties and Authority of the Senior Management*

The senior management is responsible for the specific implementation of the resolutions of the Board of Directors and of the daily business management of the Company. In accordance with the Articles of Association of the Company, the major responsibility of the senior management include: to propose the Company's operating plan and investment proposal, to propose the plan of establishing the internal management authority, to propose the basic management system of the Company and to formulate the Company's specific regulations.

2. Meetings of Board of Directors

For the year of 2016, the Board of Directors convened a total of seven meetings. The attendance of the meetings by the Directors was as follows:

Name	Position	Number of meetings attended/ should attend	Attendance Rate
Ms. Guo Yumei (郭玉梅)	Chairperson; Executive Director and General Manager	7	100%
Mr. Luo Yun (羅雲)	Executive Director and Deputy General Manager	5	100%
Mr. Zeng Feng (曾鋒)	Non-executive Director	7	100%
Ms. Song Hong (宋紅)	Non-executive Director	5	100%
Mr. Wong Man Chung (黃文宗)	Independent Non-executive Director	3	60%
Mr. Yin Xiaobing (尹曉冰)	Independent Non-executive Director	4	80%
Mr. He Xifeng (何錫鋒)	Independent Non-executive Director	5	100%

3. Chairperson and President

Ms. Guo Yumei has been appointed as the Chairperson and President of the Company. In accordance with Rule A.2.1 of the Corporate Governance Code as provided in Appendix 14 to the Listing Rules, the role of the Chairperson and President should be separated and should not be held by the same person. The Board of Directors has noticed that there was some deviation from Rule A.2.1 of the provisions of the Corporate Governance Code. However, given the development of the Group and the rich and extensive experience that Ms. Guo has in the industry and the Group with a long history, the Board of Directors believes, that Ms. Guo concurrently acting as the Chairperson and General Manager will help implement the Group's business strategies and enhance the operating efficiency. In addition, the Board of Directors comprises three independent non-executive Directors and two non-executive Directors, enabling the Company's shareholders to be represented sufficiently and fairly under the monitoring of the Board of Directors.

4. Appointment of Directors

In accordance with the provisions of the Articles of Association of the Company, the Directors have been appointed at the General Meeting for a term of three years, after which they may be re-elected. The Company has formulated the procedures of such appointment. The Nomination Committee shall be responsible for nominating new Directors and then submitting such nomination to the Board of Directors for review and consideration. All newly nominated Directors must be elected and approved at the General Meeting.

5. Remuneration of Director

The Directors of the Company may receive basic salary, stock options, non-monetary advantage, right to pension, bonuses, and compensations (including such compensation provided due to the loss or termination of their job duties or appointment).

The independent non-executive Directors of the Company receive their remuneration from the Company whereby the Company shall pay each independent non-executive Director an amount of RMB150,000, RMB150,000 and RMB220,000 respectively on a yearly basis. Such travel and accommodation expenses incurred for the Company's board meetings, General Meeting and the relevant activities organized by the Board of Directors attended by the independent non-executive Directors shall be borne by the Company. As for those non-executive Directors who do not take any management job duties in the Company, they do not receive their remuneration from the Company. The executive Directors who undertake management job duties in the Company shall receive their remuneration from the Company. All remuneration of all executive Directors shall be determined pursuant to the standard as provided in the "Measures Regarding Remuneration Management" of the Company, and in particular, such remuneration shall include the basic salary, performance bonus and other benefits. The basic salary is determined based on the position held by the executive Director in the Company and the performance bonus is determined subject to the Company's operational results. Other benefits shall include the statutory pension, medical and housing provident fund. Details in relation to the remuneration of Directors are provided in Note 27 of Financial Statements.

6. Training of Directors

During the Reporting Period, the Directors of the Company actively participated in seminars on the obligations and responsibilities required to be fulfilled for being the directors of a listed company in Hong Kong, as well as the obligations for the listing compliance of a listed company. All of the Directors of the Company (including Ms. Guo Yumei, Mr. Luo Yun, Mr. Zeng Feng, Ms. Song Hung, Mr. Wong Man Chung Francis, Mr. Yin Xiaobing, and Mr. He Xifeng) attended the training of Directors on July 4, 2016, for purposes of learning the relevant regulatory provisions in relation to the listing in Hong Kong, assiduously reviewing various Listing Documents during the course of the Company's preparation for the Listing, and gradually familiarizing themselves with the requirements regarding the compliance requirements of a listed company in Hong Kong.

7. Joint Company Secretary and her/his training

Mr. Yang Yang (楊揚) and Mr. Chiu Mingking (趙明璟) act as the Joint Company Secretaries and are responsible for facilitating the procedures of the Board of Directors and facilitating the communication between and among the Directors and between shareholders and the management level. Mr. Chiu Mingking has his main contact with the Company as Mr. Yang Yang and Mr. Yang Yang shall report significant events to the Chairperson. The profiles of the Joint Company Secretaries are stated in the section of "Profiles of the Directors, Supervisors and Senior Management" of this Report. During the Reporting Period, the Joint Company Secretaries need to receive professional training for more than 15 hours as to update their technique and knowledge.

8. Meetings of the Board of Directors

In accordance with the provisions of the Articles of Association of the Company, meetings of the Board of Directors shall be convened at least four times a year. Meetings of the Board of Directors shall be convened by the Chairperson. A notice of regular board meeting shall be given to all directors at least 14 days before the meeting is convened pursuant to the requirements of the Code, and such notice shall state the date, time and venue of the meeting to be convened and the format to be adopted of such meeting. Other interim board meetings have reasonable notices be delivered to all Directors.

In accordance with the provisions of the Listing Rules, in the event that the Company decides to announce to distribute, propose or pay dividends, or it shall pass at the meeting of the Board of Directors such resolutions in respect of profits or loss for any year, half-year or other periods, the Company must give a notice to the Hong Kong Stock Exchange at least seven working days before the convening of such meeting and must issue an announcement thereof.

Save as that the meeting of the Board of Directors review and consider the Connected Transactions as provided in the Articles of Association of the Company, meetings of the board of directors shall be held only if half or more of the directors are present. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he or she may entrust another director to attend the meeting on his or her behalf by a written power of attorney specifying the scope of the authorization. The Secretary of the Company's Board of Directors is responsible for preparing and safekeeping the minutes of the board meetings and ensuring that the Directors can enquire about such minutes.

After its Listing, the Company shall strictly comply with the provisions in relation to the meetings of the Board of Directors.

IV. BOARD OF DIRECTORS COMMITTEES

Our Board of Directors delegates certain responsibilities to various committees. In accordance with relevant PRC laws, regulations, the Articles of Association of the Company and the certain rules and regulations, we have formed four board committees, namely the audit committee, the remuneration and appraisal committee, the nomination committee, and the strategy and investment decision committee.

1. Audit Committee

The Company has established the Audit Committee in accordance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and has expressly stated the scope of job duties of such committee in writing. The Audit Committee consists of three members, namely Mr. Wong Man Chung Francis (黃文宗), Mr. Zeng Feng (曾鋒) and Mr. Yin Xiaobing (尹曉冰). All members of the Audit Committee are independent non-executive Directors. Mr. Wong Man Chung Francis (黃文宗) is the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to review and supervise the Company's financial reporting process, financial control, internal control and risk management systems, to supervise the Company's internal audit system, to oversee the audit process and to recommend the engagement or replacement of external auditors. The Audit Committee is also responsible for the communications between the internal and the external auditors and performing other duties and responsibilities as assigned by the Board.

As for the selection, appointment and dismissal of external auditors or resignation of auditors, the Board and the Audit Committee have reached a consensus.

The meeting of the first board of directors of the Company was held on June 23, 2016, passing the establishment of the Audit Committee. The committee did not meet during the years ended 31 December 2016 and 2015. On 24 April 2017, after consideration of voting, the Audit Committee decided to recommend to continue appointing PricewaterhouseCoopers Certified Public Accountants as the auditors of the Company for the year 2017.

Since the date of listing of the Company, the Committee will perform its duties strictly in accordance with the relevant regulatory requirements, corporate governance rules and the rules of procedure of the Audit Committee of the listing place of the Company.

2. Remuneration and Appraisal Committee

The Company has established the Remuneration and Appraisal Committee in accordance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, and has expressly stated the scope of job duties of such committee in writing. The Remuneration and Appraisal Committee consists of three members, namely Mr. He Xifeng (何錫鋒), Mr. Yin Xiaobing (尹曉冰) and Ms. Guo Yumei (郭玉梅). Except for Ms. Guo Yumei who is an executive Director, all other members are independent non-executive Directors. Mr. He Xifeng (何錫鋒) is the chairman of the Remuneration and Appraisal Committee.

The principal responsibilities of the Remuneration and Appraisal Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management, to establish the performance evaluation standard, procedures and system, to annually evaluate the performance of the Directors and senior management, to make corresponding recommendations to the Board, and to perform other duties and responsibilities as assigned by the Board.

The meeting of the first board of directors of the Company was held on June 23, 2016, passing the establishment of the Remuneration and Appraisal Committee. The committee did not meet during the Reporting Period.

Since the date of listing of the Company, the Committee will perform its duties strictly in accordance with the relevant regulatory requirements, corporate governance rules and the rules of procedure of the Remuneration and Appraisal Committee of the listing place of the Company.

3. Nomination Committee

The Company has established the Nomination Committee in accordance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, and has expressly stated the scope of job duties of such committee in writing. The Nomination Committee consists of three members, namely Mr. Yin Xiaobing (尹曉冰), Ms. Guo Yumei (郭玉梅) and Mr. He Xifeng (何錫鋒). Except for Ms. Guo Yumei who is an executive Director, all other members are independent non-executive Directors. Mr. Yin Xiaobing (尹曉冰) is the chairman of the Nomination Committee.

The principal responsibilities of the Nomination Committee are to make recommendations to our Board on the scale, structure, and composition of the Board and on the nomination of Directors, to review the director and senior management candidates, to review the independency of the independent non-executive Directors, and to perform other duties and responsibilities as assigned by the Board.

The meeting of the first board of directors of the Company was held on June 23, 2016, passing the establishment of the Nomination Committee. The committee did not meet during the Reporting Period.

Since the date of listing of the Company, the Committee will perform its duties strictly in accordance with the relevant regulatory requirements, corporate governance rules and the rules of procedure of the Nomination Committee of the listing place of the Company.

4. Strategy and Investment Decision Committee

The Company has established the Strategy and Investment Decision Committee in accordance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, and has expressly stated the scope of job duties of such committee in writing. The nomination committee consists of three members, namely Ms. Guo Yumei (郭玉梅) and Mr. Luo Yun (羅雲) and Mr. Yin Xiaobing (尹曉冰). Except for Mr. Yin Xiaobing who is an independent non-executive Director, all other members are executive Directors. Ms. Guo Yumei (郭玉梅) is the chairperson of the Strategy and Investment Decision Committee.

The principal responsibilities of the Strategy and Investment Decision Committee are to conduct studies and make recommendations to the Board on the long-term development plan and strategies, the significant investment or financing plans of the Company, and significant capital investment for operation projects, to review the implementation of those investment and financing plans, and to perform other duties and responsibilities as assigned by the Board.

The meeting of the first board of directors of the Company was held on June 23, 2016, passing the establishment of the Strategy and Investment Decision Committee. The committee did not meet during the Reporting Period.

Since the date of listing of the Company, the Committee will perform its duties strictly in accordance with the relevant regulatory requirements, corporate governance rules and the rules of procedure of the Strategy and Investment Decision Committee of the listing place of the Company.

V. DIVERSIFICATION POLICY OF MEMBERS OF THE BOARD OF DIRECTORS

For purposes of reaching a sustainable balanced development, the Company has regarded the gradual diversification of the members of the Board of Directors as the key element that supports the Company to achieve its strategic objective and to maintain the sustainable development. When the Company is establishing the composition of the members of the Board of Directors, it is taking into consideration from different aspects and is achieving the diversification of the member of the Board of Directors. Such aspects shall include but is not limited to sex, age, cultural and educational background, races, professional experience, technique, knowledge and term of service. All the appointment for the members of the Board of Directors are made on the principle of recruiting meritocratic professional. Meanwhile, the candidates are selected based on objective conditions, fully taking into consideration of the benefits brought by the diversification of members of the Board of Directors.

The Company's selection of candidates is subject to a series of standards regarding diversification, including but not limited to sex, age, cultural and educational background, races, professional experience, technique, knowledge and term of service. The final decision will be made based on the strength of the candidates and such contribution they can make to the Board of Directors.

In the future, when a Director is appointed or his/her appointment is renewed, the Nomination Committee shall nominate new Directors pursuant to the requirements of the Diversification Policy of Members of the Board of Directors, for purposes of achieving the objective of diversifying the members of the Board of Directors.

VI. RISK MANAGEMENT AND INTERNAL CONTROL

We have established a set of consolidated risk management policies and measures for purposes of identifying, evaluating and managing the operating risk. Our Audit Committee is responsible for monitoring the Group's finance control, internal control and risk management system. The head of the internal audit department is responsible for making periodic report of the results and when it is necessary, such department will discuss with external legal advisors about the possibly arising issues, helping ensure that we do not violate the relevant regulatory provisions or applicable laws.

For purposes of such various risks we are exposed to during our operation, we focus on the strengthening of the internal control and risk management system. We have implemented many policies and measures in order to ensure that effective risk management is conducted in respect of the operation, financial reports and records, fund management and the compliance with the applicable laws and regulations of Hong Kong and China.

The major characteristics of the risk management and internal control system are: the Company has consolidated the risk management and internal control system and has formulated the systematic framework from the level of the Company and business. Under such framework, a mutual mapping between key risk points and control points is established by setting up risk control matrix in order to implement the control measures of identification, appraisal and tackling in various business procedures within the enterprise. As a result, risk management and internal control can be merged in organic manner, significant enhancing the enterprise's capability in risk precaution and control and its control means, and creating practicable effect on the corporate management. The Company shall classify the internal control system into three layers, namely the basic management system, specific regulations/management measures and detailed rules for implementation according to such defined main subject, the level involved and the bound scope. The effectiveness of various rules and regulations shall be appraised each year in accordance with the appraisal results and the regulatory requirements and based on the business need of the Company, annual construction plan of the system shall be proposed and such rules and regulations that need to be established, amended and abolished shall be expressly provided. Meanwhile, comparing the logic relationship between framework requirements of the internal control elements and the Company's system, the Company's rules and regulations shall be classified pursuant to the business types, for purposes of establishing procedures for and standardizing the management of the Company's rules and regulations. As a result, the Company's operation in compliance and strategic development can be safeguarded. The Company highly values the dynamic monitoring of risk management. Based on the changes of the internal and external environment of the Company, risk information so collected is to be analyzed; the impact created on the Company's operating process by various risks and the possibility of the loss caused by such various risks are to be quantified; such risks in relation to achieving the goal for internal control during operating activities are timely identified and analyzed by a system; and the Company's risk tolerance and risk tackling strategies are reasonably confirmed. The Company seriously concerns about the management and control of major risks and makes an appraisal on the major risks; details the solution thereof; analyzes in depth the root cause for the generation of the major risks, causes of risks, such impact resulted probably, tackling strategies to be adopted and formulates practicable measures for risk management and control.

The procedures by which the Company examines the effectiveness of the risk management and internal control system shall include: to formulate an appraisal proposal, to establish appraisal team, to implement on-site test, to identify defects in control, to summarize and compile the appraisal results, and to prepare an appraisal report. The Company shall authorize the audit department to be responsible for the specific organization and implementation of the appraisal on internal control. The Company shall put forward some confirmed opinions after conducting comprehensive analysis thereon the defects in control. Then, the Company shall make a final confirmation after it has carried out the review pursuant to the stipulated authority and procedures and shall classify such defects as material defects, important defects and general defects based on the impact produced by such defects. Such confirmed opinions shall be proposed in form of a written report to report to the Board of Directors and the Operating Meeting. Material defects shall be finally confirmed by the Board of Directors. The Company shall timely adopt the corresponding strategies with respect to the material defects and major defects, and practicably has risk controlled within such range that the Company can undertake. In addition, the Company shall call to account of the relevant department or personnel.

In addition, the Company places a great emphasis on inside information management. For purposes of strengthening the confidentiality of insider information, maintaining the fairness of information disclosure and protecting the legal interests and rights of the vast number of investors, the Company's information disclosure system and mechanism is established in accordance with the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Securities Law of the People 's Republic of China (《中華人民共和國證券法》), Information Disclosure System of Kunming Dianchi Water Treatment Co., Ltd. (《昆明滇池水務股份有限公司信息披露制度》), Internal Reporting System of Material Information of Kunming Dianchi Water Treatment Co., Ltd. (《昆明滇池水務股份有限公司重大信息內部報告制度》), the Listing Rules and domestic or foreign laws, regulations and other regulatory documents. Since the Listing Date, the Company has strictly developed information disclosure pursuant to the regulatory requirements and expressly stipulated that the Board of Directors shall manage in uniform manner and be responsible for the Company's information disclosure. The Chairperson is the first officer in charge of the Company's information disclosure and the Company Secretary is the main person in charge of the Company's information disclose. Moreover, detailed provisions in respect of the managerial responsibility of the Directors, Supervisors, senior management and officers in charge of branches or subsidiaries shall be made.

Our Board of Directors and the senior management are accountable for the overall responsibility in respect of monitoring the implementation of internal control and risk management procedures and other measures in the Group. The Company's risk management and internal control system aims at managing but not eliminating the risk for not being able to achieving the business objective. Moreover, only reasonable but not absolute guarantee is made for materially untrue statement or loss. The Board of Directors will conduct an examination on the Company's risk management and internal control system once per year. The Board of Directors states that it has reviewed and examined the Company's risk management and internal control system as of December 31, 2016. The Board of Directors has confirmed that it has examined the effectiveness of the Company's risk management and internal control system. The Board believed that the Company's risk management and internal control system is effective and sufficient. The Company's risk management and internal control system can effectively guide against such risks existing in the operation.

We have appointed and renewed the appointment of external professional advisors (including the auditor, legal or other advisors) for provision of professional suggestions in respect of how we observe all applicable related laws and regulations.

VII. THE DIRECTORS' LIABILITY TO THE FINANCIAL STATEMENTS

The Company has not encountered with any significant and uncertain events and circumstances that might produce significant doubts on the Company's capability of its continuous operation of business. The Board of Directors has confirmed that it is responsible for the preparation of the Group's financial statements as of December 31, 2016.

VIII. REMUNERATION OF AUDITOR

For the year of 2016, the Company has appointed PricewaterhouseCoopers, Certified Public Accountants, an international accounting firm, to provide the Company with auditing service in accordance with International Financial Reporting Standards and the Company has paid such accounting firm a remuneration of RMB800,000. Moreover, the Company has separately appointed PricewaterhouseCoopers, Certified Public Accountants to be the reporting accountant for the Company's listing in Hong Kong and for the year of 2016, the Company has paid such accounting firm a remuneration of RMB2,500,000.

For the year of 2016, the Company has appointed Union Power CPAs Co., Ltd. (Yunnan Branch), an accounting firm in China, to act as the PRC auditor for the Company for the year of 2016 and such auditor shall provide the Company with auditing service in accordance with China Accounting Standards for Business Enterprises and the Company has paid such accounting firm a remuneration of RMB40,000.

IX. SHAREHOLDERS' RIGHTS

1. Shareholders have their right to initiate and convene the General Meeting

In accordance with the provisions of the Articles of Association of the Company, the shareholders shall be entitled to the following right: A shareholder solely holding or shareholders aggregately holding more than ten percent (inclusive) of shares having voting powers in the Company may sign a written request to suggest the Board of Directors for convening an extraordinary shareholders' general meeting.

2. Shareholders have their right to submit an interim draft resolution to the Company at the General Meeting

It is also provided in the Articles of Association of the Company that when the Company is to convene a General Meeting, a shareholder holding more than three percent (inclusive) of shares having voting powers in the Company shall have the right to submit an interim draft resolution in writing to the Company. Being located at the Company's registered office in China and the Company's headquarters, the Office of the Board of Directors shall be responsible for handling with such draft resolution submitted by such shareholder. Should some items in such interim draft resolution fall into the scope of the job duties of the General Meeting, the Company should have such items included in the agenda of such meeting.

3. Shareholders are entitled to the inquiry right

As for the inquiry required to be concerned by the Board of Directors, the shareholders may send an email to the email address at dshbgs@kmdcsw.com for the Board of Directors or a letter to the following address. The Company will timely process all the inquiries in an appropriate manner:

Wastewater Treatment Plant No. 7
Kunming Dianchi Tourist Resort
Yunnan Province
PRC (to be received by the Board of Directors)

X. Communications with Shareholders

The Company believes that effective communications with Shareholders is essential to enhancement of the relationship with investors and enhancement of investors' understanding of the Company's business and strategies. The Company highly values Shareholders' opinions and suggestions, and actively organizes and conducts various activities related to the relationship with investors in order to keep the communications with Shareholders, and to timely satisfy the reasonable demands of all Shareholders.

XI. Relationship with Investors

The H Shares of the Company were listed on the Hong Kong Stock Exchange on April 6, 2017 and the Company issued 339,430,000 H Shares of par value of RMB1.00 per share with the Offer Price of HK$3.91 per H Share.

The Company believes that good relationship with investors may help build more stable and consolidated shareholder base. As a result, since the Listing, the Company has been and will be dedicated to maintaining a higher degree of transparency, observing the Listing Rules and timely providing investors with comprehensive and accurate information, and sustainably performing the obligation of disclosing the information of the Listed Company.

The Company will strengthen its communications with investors and let investors understand corporate strategies and business operation by organizing road shows, participating in investors summit, voluntary information disclosure and others.

The Company will continue to maintain open-up and effective investors communication policies for purposes of timely providing investors with the latest information on the Company's business when the Company is in compliance with the relevant regulatory provisions.

XI. Articles of Association

The Company has amended the Articles of Association in accordance with the requirements of the Listing Rules. The amended Articles of Association have been effective since the Listing Date. The Articles of Association have been published on the website of the Hong Kong Stock Exchange and the website of the Company. There have been no amendment made thereto the Articles of Association since the Listing Date.

XII. Environmental, Social and Governance Report

During the Reporting Period, the Company has complied with the provisions of "Comply or Explain" (「不遵守就解釋」) stated in the Environmental, Social and Governance ("**ESG**") Reporting Guide. The Company will separately issue the Environmental, Social and Governance Report.

CHAPTER TEN REPORT OF THE BOARD OF SUPERVISORS

I. COMPOSITION OF THE BOARD OF SUPERVISORS

As of December 31, 2016, the Board of Supervisors of the Company consists of three Supervisors, of whom two are employee representative Supervisors. The remaining Supervisor has been appointed by our Shareholders and the current employee representative Supervisors have been appointed by the representatives of our labor union. The Supervisors are appointed for a term of three years after which they may be re-elected.

The Board of Supervisors of the Company comprises the following:

Name	Position	Appointment Date
Na Zhiqiang (那志強)	Chairperson of the Board of Supervisors; Employee Representative Supervisor	January 19, 2011
Yao Jianhua (姚建華)	Employee Representative Supervisor	January 19, 2011
Shao Wei (邵偉)	Supervisor	May 7, 2016

II. MEETING OF THE BOARD OF SUPERVISORS

In 2016, the Board of Supervisors of the Company convened one meeting of the Board of Supervisors in total. All Supervisors were present. The details are as follows:

On May 26, 2016, the Company convened a meeting of the Board of Supervisors to consider and approve "The Proposal on the Replacement of Shao Wei as a Supervisor of the Company", "The Proposal on the Financial Final Accounts of the Company for 2015", "The Proposal on the Financial Budget of the Company for 2016", 'The Proposal on Signing the "Operation and Management Framework Agreement" with Diantou Co., Ltd.', 'The Proposal on Signing "The Non-competition Agreement" with Diantou Co., Ltd.', "The Proposal on Issuing H Shares and Listing in Hong Kong", "The Proposal on Issuing H Shares and the Scheme of Listing in Hong Kong", "The Proposal on the Plans of Use of Proceeds from Issuing H Shares", "The Proposal on the Resolution regarding the Valid Period of Issuing H Shares and Listing in Hong Kong", "The Proposal on the Authorization of the Board and its Authorized Persons to Handle all Matters Relating to the H Shares Issuance and Listing", "The Proposal on Determining the Authorized Persons of the Board of Directors", and "The Proposal on Revising the Articles of Association (Listing) of Kunming Dianchi Water Treatment Co., Ltd.".

III. MAJOR WORK IN 2016

In 2016, being accountable to all Shareholders, the members of the Board of Supervisors of the Company strengthened the coordination and cooperation between the Board of Directors and the senior management and seriously performed the duties of supervision, for purposes of better playing a supervisory role of the Board of Supervisors, promoting the standardized operation and healthy development of the Company, and safeguarding the legal rights and interests of the Company and shareholders.

(1) Monitoring the operation of the Company

In 2016, the members of the Board of Supervisors of the Company reviewed the proposals submitted to the Board of Directors and the General Meetings for consideration and examined the operating activities of the Company by attending all the Board meetings and General Meetings of the Company. The Board of Supervisors believes that the operating activities of the Company are in compliance with the provisions of the relevant laws and regulations of the state and the Articles of Association. The decision-making procedures are legal and the operating results are significant. The Company has not engaged in any operating activities that are illegal nor in violation of laws and regulations or exceed the scope of business operation as prescribed in laws and regulations.

(2) Monitoring the Directors and senior management of the Company for their performance of their duties

In 2016, the members of the Board of Supervisors of the Company monitored the Directors and senior management of the Company performing their duties by attending Board meetings, reviewing various resolutions of the Board and examining the daily operation and management of the Company. The Board of Supervisors believes that the Directors and senior management of the Company are in compliance with laws and carry out their duties responsibly. They perform their work in a practicable, diligent and due manner. The decision-making procedures are scientific and legal. When performing their duties, none of the Directors or senior management acted illegally nor in violation of laws nor in such manner the rights and interests of the Company and shareholders were damaged.

(3) Monitoring the financial position of the Company

In 2016, the Board of Supervisors carefully reviewed the relevant financial information and audit reports of the Company. The Board of Supervisors believes that the preparation of the financial statements of the Company is in compliance with the Financial Reporting Standards. The report has followed the principle of consistency and has reflected is accurate, complete, true and fair to reflect the financial status and operating results of the Company in an accurate, complete, true and fair manner.

(4) Monitoring the connected transactions of the Company

In 2016, the Board of Supervisors reviewed the information regarding the connected transactions between the Company and the Controlling Shareholder. The Board of Supervisors believes that such connected transactions are conducted on normal commercial terms. As such transactions were fair, equitable and reasonable, there existed no damages to the interests of the Company and other Shareholders of the Company.

(5) Internal control

In 2016, the Company established a rather complete internal control system, in compliance with the requirements of the laws and regulations of the state and meeting the actual needs of production, operation and management of the Company. Such system could be effectively implemented. The establishment of the internal control system has produced effect on better risk prevention and control on various sectors of production, operation and management of the Company. During the Reporting Period, the supervisory activities of the Board of Supervisors did not reveal any risk existing in the Company and there was no objection to the supervision matters during the Reporting Period.

(6) Completion of formulating the relevant working system of the Board of Supervisors

In 2016, the Board of Supervisors organized, formulated and issued "The Rules of Procedure of the Board of Supervisors of Kunming Dianchi Water Treatment Co., Ltd." in accordance with the *requirement of the Corporate Governance for Listed Companies*, for purposes of further improving the corporate governance system.

IV. 2017 ANNUAL WORK PLAN

(1) In accordance with the Articles of Association and the "Rules of Procedure of the Board of Supervisors of the Company" and the requirements of the relevant provisions, the Company will carry out normal meetings of the Board of Supervisors and will diligently and responsibly perform their duties. Meetings of the Board of Supervisors will be convened according to the actual situation of the Company. The Board Supervisors will endeavor its best efforts to review and consider various proposals. The financial situation of the Company will be examined and checked. By regularly understanding and reviewing financial reports, it can monitor the financial operation of the Company in order to prevent against operational risks and further safeguard the interests of the Company and Shareholders.

(2) The Board of Supervisors will seriously study the relevant state laws and regulations and such relevant policies newly introduced by the state. It will continuously enhance the efficiency of supervision and actively urge the construction and effective operation of the internal control system. It will shall establish a long-term effective mechanism of corporate governance, facilitating the sustainable and healthy development of the Company. Moreover, it will give full play to its role as the Board of Supervisors by practicably assuming the responsibility of protecting the interests of the Shareholders and safeguarding a healthy and stable development of the Company.

(3) The Board of Supervisors will diligently, responsibly and actively participate in the Board meetings, General Meetings and other important meetings of the Company. Participating in the decision-making process in relation to some important matters and grasping the legality of decision-making procedures in relation to some important decision-making matters can better safeguard the interests of the Company and all Shareholders.

(4) The Board of Supervisors will continue to strengthen its exercise of supervision over the Directors and senior management of the Company in respect of performance of duties, implementation of resolutions and compliance of laws and others. In particular, it will strengthen the supervision over the violation made by senior management, dereliction of duty, failure to act and shall rectify such, for purposes of enabling the senior management's decision-making and operating activities to be more standardized and legal.

In 2017, the Board of Supervisors shall seriously abide by the provisions of laws, regulations and the Articles of Association and perform their duties and obligations, and effectively safeguard the interests of the Company and the Shareholders, and ensure that the Company can be operated in a standardized and healthy manner.

pwc 羅兵咸永道

To the Shareholders of Kunming Dianchi Water Treatment Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 105 to 200, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is recoverability of trade receivables and receivables under service concession arrangements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables and receivables under service concession arrangements Refer to Note 9 "Receivables under service concession arrangements", Note 15 "Trade and other receivables" and Note 4 "Critical accounting estimates and judgements" to the consolidated financial statements. As at 31 December 2016, the carrying amounts of trade receivables and the receivables under service concession arrangements were RMB126 million and RMB352 million, respectively, of which trade receivables of RMB85 million and all the receivables under service concession arrangements were due from local government authorities. Management assessed the recoverability of trade receivables and receivables under service concession arrangements based on the aging portfolio, customers' liquidity, past collection history and subsequent settlement. Management concluded that there was no impairment in respect of trade receivables and receivables under service concession arrangements as at 31 December 2016. We focused on this area because of the significant management judgements involved in determining the recoverability of trade receivables and receivables under service concession arrangements and the significance of these balances.	We evaluated and tested management's controls over the assessment of the recoverability of trade receivables and the receivables under service concession arrangements. We reviewed all the relevant contracts for receivables under service concession arrangements to assess the concession rights and relevant amounts. We tested the accuracy of the ageing report for trade receivables. We confirmed significant trade receivable balances with customers on a sampling basis. We corroborated management's assessment of the collectability of individually significant balances against available evidence, including interviewing customers and examining the underlying supporting documents. We examined significant subsequent settlements for both trade receivables and receivables under service concession arrangements. We found that management's judgement in assessing the recoverability of trade receivables and receivables under service concession arrangements were supported by the evidences we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information as set out in the Group's 2016 annual report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Chiu Kong, Edmond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 April 2017

CONSOLIDATED BALANCE SHEETS

AS AT 31 DECEMBER 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	433,484	347,560
Long term prepayments	7	450,000	863,950
Property, plant and equipment	8	2,369,089	1,961,017
Receivables under service concession arrangements	9	341,944	243,901
Amounts due from customers for construction contracts	15	35,573	28,485
Intangible assets	10	75,197	68,647
Investments in associates	11	15,101	15,222
Prepayments for acquisition of subsidiaries	36	79,950	10,879
Deferred income tax assets	12	23,697	25,142
		3,824,035	3,564,803
Current assets			
Receivables under service concession arrangements	9	9,679	6,132
Inventories	13	10,336	6,605
Amounts due from customers for construction contracts	14	5,716	6,104
Trade and other receivables	15	306,895	189,762
Cash and cash equivalents	16	446,830	1,087,533
		779,456	1,296,136
Total assets		4,603,491	4,860,939
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	17	720,000	720,000
Other reserves	18	696,513	669,061
Retained earnings	19	1,077,795	830,254
		2,494,308	2,219,315
Non-controlling interests		5,102	–
Total equity		2,499,410	2,219,315

CONSOLIDATED BALANCE SHEETS

AS AT 31 DECEMBER 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	*21*	**107,121**	110,623
Borrowings	*20*	**741,995**	1,170,639
Deferred income tax liabilities	*12*	**9,321**	5,214
		858,437	1,286,476
Current liabilities			
Trade and other payables	*22*	**422,339**	550,048
Current income tax liabilities		**44,568**	24,887
Borrowings	*20*	**778,737**	780,213
		1,245,644	1,355,148
Total liabilities		**2,104,081**	2,641,624
Total equity and liabilities		**4,603,491**	4,860,939
Net current liabilities		**(466,188)**	(59,012)
Total assets less current liabilities		**3,357,847**	3,505,791

The notes on pages 110 to 200 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 105 to 200 were approved by the Board of directors on 25 April 2017 and were signed on its behalf.

Guo Yumei	**Luo Yun**
Director	*Director*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	914,925	825,107
Cost of sales	25	(489,444)	(446,967)
Gross profit		425,481	378,140
Selling expenses	25	(10,605)	(9,456)
Administrative expenses	25	(97,604)	(69,857)
Research and development expenses	25	(7,398)	(26,144)
Other income	23	82,019	42,259
Other losses – net	24	(1,272)	(2,774)
Operating profit		390,621	312,168
Finance income		16,670	20,005
Finance costs		(80,299)	(64,064)
Finance costs – net	28	(63,629)	(44,059)
Share of results of associates	11	(121)	(367)
Profit before income tax		326,871	267,742
Income tax expense	29	(51,193)	(30,131)
Profit for the year		275,678	237,611
Profit attributable to:			
– The equity holders of the Company		274,993	237,611
– Non-controlling interests		685	–
		275,678	237,611
Other comprehensive income		–	–
Total comprehensive income for the year		275,678	237,611
Attributable to:			
– The equity holders of the Company		274,993	237,611
– Non-controlling interests		685	–
		275,678	237,611
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted earnings per share	31	0.38	0.33
Dividends	32	–	252,000

The notes on pages 110 to 200 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

		Capital and reserves attributable to the equity holders of the Company					
	Note	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2015		360,000	1,099,062	867,424	2,326,486	2,000	2,328,486
Comprehensive income:							
Profit for the year		–	–	237,611	237,611	–	237,611
Transactions with owners:							
Increase in share capital by capitalisation of share premium	*17(b)*	360,000	(360,000)	–	–	–	–
Liquidation of a subsidiary		–	–	–	–	(2,000)	(2,000)
Deemed distributions to the controlling shareholder of the Company	*18(b)*	–	(95,189)	–	(95,189)	–	(95,189)
Deferred income tax assets arising from revaluation results	*18(b)*	–	2,407	–	2,407	–	2,407
Dividends declared and paid to the Company's shareholders	*32*	–	–	(252,000)	(252,000)	–	(252,000)
Appropriations:							
Appropriation to statutory reserve	*18(a)*	–	22,781	(22,781)	–	–	–
As at 31 December 2015		720,000	669,061	830,254	2,219,315	–	2,219,315
As at 1 January 2016		**720,000**	**669,061**	**830,254**	**2,219,315**	**–**	**2,219,315**
Comprehensive income:							
Profit for the year		**–**	**–**	**274,993**	**274,993**	**685**	**275,678**
Transactions with owners:							
Non-controlling interests arising on business combination	*35*	**–**	**–**	**–**	**–**	**4,417**	**4,417**
Appropriations:							
Appropriation to statutory reserve	*18(a)*	**–**	**27,452**	**(27,452)**	**–**	**–**	**–**
As at 31 December 2016		**720,000**	**696,513**	**1,077,795**	**2,494,308**	**5,102**	**2,499,410**

The notes on pages 110 to 200 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flow from operating activities			
Cash generated from operations	*32(a)*	**145,762**	1,078,073
Interest paid		**(62,719)**	(40,017)
Income tax paid		**(26,394)**	(31,068)
Net cash generated from operating activities		**56,649**	1,006,988
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash acquired	*35*	**(99,670)**	(150,233)
Increase in investments in associates		**–**	(200)
Purchase of land use right		**(40,790)**	–
Purchase of property, plant and equipment		**(99,810)**	(603,232)
Purchase of intangible assets		**(4,173)**	(8,165)
Proceeds from disposal of property, plant and equipment	*33(b)*	**165**	1
Funds granted to related parties	*36(b)(iv)*	**(68,662)**	(60,554)
Funds repayments received from related parties	*36(b)(v)*	**67,902**	68,256
Interest received		**–**	1,541
Net decrease in the term deposits with initial term of over three months		**–**	25,000
Proceeds from disposal of land use right	*33(c)*	**6,834**	–
Government grants received relating to purchase of property, plant and equipment		**21,900**	74,071
Government grants returned relating to purchase of property, plant and equipment	*21(a)*	**(22,000)**	–
Net cash used in investing activities		**(238,304)**	(653,515)
Cash flows from financing activities			
Cash paid for disposal of non-controlling interests		**–**	(2,000)
Payments for listing expenses		**(11,254)**	(4,445)
Dividends declared and paid to the Company's shareholders	*32*	**–**	(252,000)
Net cash outflow arising from consideration paid to the controlling shareholder of the Company for acquisition of wastewater treatment business		**(1,089)**	(94,100)
Proceeds from borrowings		**380,450**	1,672,716
Repayments of borrowings		**(827,155)**	(888,342)
Net cash (used in)/generated from financing activities		**(459,048)**	431,829
Net (decrease)/increase in cash and cash equivalents		**(640,703)**	785,302
Cash and cash equivalents at beginning of the year		**1,087,533**	302,231
Cash and cash equivalents at end of the year		**446,830**	1,087,533

The notes on pages 110 to 200 are an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") was incorporated in Yunnan Province of the PRC on 23 December 2010 as a joint stock company with limited liabilities under the Company Law of the PRC. The registered office of the Company is located at Kunming Dianchi No. 7 Water Treatment Plant. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 6 April 2017.

The Company and its subsidiaries (together, the "**Group**") are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 April 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statement of the Company has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") and requirements of the Hong Kong Company ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) Going concern

As at 31 December 2016, the current liabilities of the Group exceeded its current assets by approximately RMB466,188,000 (31 December 2015: RMB59,012,000). In preparing the consolidated financial statements, management has thoroughly assessed the going concern ability of the Group in association with the Group's current financial situation.

The Group has taken actions in dealing with the net working capital deficit mentioned above. It has been seeking new financing channels continuously and gaining adequate financing resources with banks and financial institutions to improve the Group's liquidity position. In light of the financing arrangements with certain commercial banks and the Group's fund raising history, management believes that the Group can continuously gain access to adequate financing resources for operation, payments of matured debts and capital expenditure. In addition, on 6 April 2017, the Company completed its global initial public offering of shares by issuing 308,572,000 H shares at a price of HK$3.91 per share, and gross proceeds of HK$1,207,000,000 was received by the Company. Accordingly, management believes that it is appropriate to prepare the consolidated financial statements on a going concern basis. Please refer to Note 17(c) for the issuance of H shares in April 2017 and Note 20(h) for the available bank borrowing facilities as at 31 December 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and interpretations not yet adopted

Up to the date of this report, IASB has issued the following new standards, amendments to standards and interpretations which are relevant to the Group's operations but are not yet effective for annual periods beginning on or after 1 January 2016 and which have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base.	1 January 2017
Disclosure Initiative – Amendments to IAS 7	Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non -cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.	1 January 2017
IFRS 9 Financial Instruments and associated amendments to various other standards	IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.	1 January 2018
IFRS 15 Revenue from contracts with customers and associated amendments to various other standards	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.	1 January 2018
IFRS 16 Leases	IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time

The Group does not plan to early adopt any of these standards. For these new standards not yet effective, the Group had assessed the impact and does not expect any significant impact on the Group's operating result or financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations not under common control

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statements of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(a) Business combinations not under common control (Continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the consolidated statements of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Business combination under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 *Consolidation (Continued)*

(b) *Business combination under common control* ***(Continued)***

The consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is earlier.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

(c) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated statements of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statements of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial information

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the consolidated statements of comprehensive income where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statements of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of associates" in the consolidated statements of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements is presented in Renminbi ("**RMB**") which is the Company's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within “finance costs – net”. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within “other losses-net”.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial period in which they are incurred.

The Group received certain completed water supply or wastewater treatment facilities as capital injection from its controlling shareholder and undertakes the operation and maintenance of such facilities owned by the Group in the concession period, during which the Group can charge service fees based on the supplied water or treated wastewater to cover its costs of investment, operations and maintenance and obtain reasonable return, according to the concession agreement entered into by the Group and the governmental authority (“**Transfer-Own-Operate**” Model or “**TOO Model**”). Since the Group directed the use of the assets and controlled the significant residual interest in the assets under the TOO Model during the concession period and the Group has the exclusive priority right to extend its operation period and is not required to return these assets to the governmental authority at the end of the concession period, the fixed assets under the TOO Model are accounted for as property, plant and equipment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment*(Continued)*

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings and facilities	20 to 50 years
Machinery and equipment	8 to 18 years
Office and electronic equipment	3 to 10 years
Motor vehicles	8 to 10 years

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition as well as interest expenses during the periods of construction and installation. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses – net" in the consolidated statements of comprehensive income.

2.7 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The land use rights of certain land of the Group were contributed by KDI. The premium paid for such rights are treated as repayments for operating lease and recorded as land use rights, which are stated at cost less accumulative amortisation and accumulated impairment losses, if any. Land use rights are amortised over the lease period of 48 to 50 years using straight-line method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Intangible assets

(i) Operating concessions

As described in Note 2.9, the Group engages with government authorities in the development, financing, operation and maintenance of wastewater treatment services (concession services) over a specified period of time (concession services period). The Group has access to operate the wastewater treatment facilities to provide the concession services in accordance with the terms specified in the arrangement.

The Group recognises the related rights in the service concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the concession service and shall recognise a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Therefore intangible assets – concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 24.6 to 30 years.

(ii) Purchased computer software

Purchased computer software license are capitalised on the basis of the costs incurred to acquire the specific software. These costs are amortised over periods ranging from 5 to 10 years.

2.9 Service concession arrangements

The Group has entered into certain service concession arrangements with governmental authorities (the "**Grantor**"). The service concession arrangements consist of Build-Operate-Transfer (the "**BOT**") arrangement and Transfer-Operate-Transfer (the "**TOT**") arrangements. Under the BOT arrangements, the Group carries out construction and upgrade work of the wastewater treatment and water supply facilities for the Grantor and receives in return a right to operate the service projects concerned for a specified period of time (the "**Operation Period**") in accordance with the pre-established conditions set by the Grantor, and the service projects should be transferred to the Grantor with nil consideration at the end of the Operation Period. A TOT arrangement is similar to a BOT arrangement except that the Group pays consideration for the right to operate the wastewater treatment and water supply facilities that have been built.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Service concession arrangements *(Continued)*

(a) Consideration given by the Grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantor for the construction and upgrade services rendered and/or the consideration paid and payable by the Group to the Grantor. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group specified or determinable amounts or the shortfall, if any, between amounts received from the users of the public services and specified or determinable amounts. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy for loans and receivables set out in Note 2.11.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public services, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the services. The intangible asset (operating concession) is accounted for in accordance with the policy set out in Note 2.8(i).

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration received or receivable from the Grantor.

(b) Construction and upgrade services

Revenue and costs relating to construction or upgrade services is accounted for in accordance with the policy set out in Note 2.26(c).

(c) Operating service

During the Operation Period of the service concession arrangements, receipts up to the level of the guarantee are treated as settlement of the financial asset. Additional amounts collected from users are recognised as revenue in accordance with the policy set out in Note 2.26(a). Costs for operating services are expensed in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Service concession arrangements *(Continued)*

(d) Contractual obligations to restore the facilities to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licenses, that is (i) to maintain the wastewater treatment plants it operates to a specified level of serviceability and/or (ii) to restore the plants to a specified condition before they are handed over to the Grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the water treatment plants, except for upgrade element, are recognised and measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. In the opinion of the directors of the Company, the contractual obligations to maintain or restore infrastructure as at each balance sheet date of the years ended 31 December 2016 and 2015 were not material to the Group.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group only has financial assets classified as "loans and receivables" during the years ended 31 December 2016 and 2015.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

2.11.1 Classification *(Continued)*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "receivables under service concession arrangements", "term deposits with initial term of over three months" and "cash and cash equivalents", in the consolidated balance sheets (Note 15, Note 9, and Note 16).

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.13 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Impairment of financial assets carried at amortised cost *(Continued)*

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial Reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of comprehensive income.

2.14 Construction contracts

A construction contract is defined by IAS 11, "Construction contracts", as a contract specifically negotiated for the construction of an asset. The Group's construction contracts refer to Build-Transfer (the "**BT**") arrangements. Under the BT arrangements, the Group carried out construction work of the wastewater treatment and water supply facilities and returned the assets to the count parties of the BT arrangements after completion of the construction.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Construction contracts *(Continued)*

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage-of-completion" method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the consolidated balance sheets, the Group reports the net contract position for each contract as either an asset or a liability. Amount due from customers for construction contracts represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings. "Amount due to customers for construction contracts" represents a liability where the opposite is the case.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Cash and cash equivalents

In the consolidated cash flows statements, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade and other payables

Trade payables are obligations to pay for goods, construction or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Borrowings cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the areas where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if deferred income tax liabilities arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint controlled entities and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

FOR THE YEAR ENDED 31 DECEMBER 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits

(a) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

2.25 Provision and contingent liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Rendering of wastewater treatment and other services

Revenue from wastewater treatment operation and other services is recognised when the services are rendered.

(b) Water supply services

Revenue from water supply services is recognised when a Group entity has delivered water to the customer; the customer has accepted the water and collectability of the related receivables is reasonably assured.

(c) Revenue from construction contracts

Revenue from construction service is recognised on the percentage-of-completion method, as further explained in the accounting policy set out in Note 2.14.

(d) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred revenue and are credited to the consolidated statements of comprehensive income on a straight-line basis over the estimated useful lives of the related asset.

2.28 Research and development

Research expenditure is recognised as an expense as incurred.

When the future economic benefits become apparent as a project progresses into the development stage the costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2.29 Dividend distribution

Dividend distribution to the Company’s shareholders is recognised as a liability in the Company and the Group’s consolidated financial statements in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

FOR THE YEAR ENDED 31 DECEMBER 2016

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group's activities do not expose it to significant foreign exchange risk because it principally operates in the PRC and RMB is the currency of the primary economic environment in which the Group operates.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing borrowings.

Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow or fair value interest-rate risk.

The interest rates and terms of repayments of borrowings are disclosed in Note 20.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

As at 31 December 2016 and 2015, if the interest rate on floating interest rate borrowings had been higher/lower by 0.5%, the Group's net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Year ended:		
Net profit (decrease)/increase		
– Higher 0.5%	**(685)**	(1,377)
– Lower 0.5%	**685**	1,377

(b) Credit risk

The carrying amounts of cash and cash equivalents, term deposits with initial term of over three months, trade and other receivables and receivables under service concession arrangements included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

All the cash and cash equivalents and term deposits with initial term of over three months, were deposited in the major financial institutions in the PRC, which the directors of the Company believe are of high credit quality.

For trade and other receivables and receivables under service concession arrangements, the customers are primarily local governments and PRC state-owned entities. As at 31 December 2016 and 2015, the ageing analysis of trade receivables is set out in Note 15(a). Although the revenue is highly concentrated in the two single customers (Note 5(d)), in the opinion of the directors of the Company, the collectability of long-aged receivables were not considered as high risk because the receivables were due from a local government and there is no material change in credit risk from this local government. In addition, there was not any significant long-aged receivables as at 31 December 2016 and 2015. Accordingly, the time value of the long-aged receivables is not significant. As such, no provision was made for receivables during the years ended 31 December 2016 and 2015.

FOR THE YEAR ENDED 31 DECEMBER 2016

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flows. All the borrowings are in compliance with relevant covenant terms if any and the Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Please refer to Note 2.1(a) and Note 20(h) for more analysis of liquidity risk and undrawn down bank borrowings facilities in a greater detail respectively.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016					
Borrowings	**786,656**	**48,323**	**700,000**	**–**	**1,534,979**
Interest payments on borrowings	**48,331**	**30,450**	**91,350**	**–**	**170,131**
Financial liabilities included in trade and other payables	**283,867**	**–**	**–**	**–**	**283,867**
	1,118,854	**78,773**	**791,350**	**–**	**1,988,977**
As at 31 December 2015					
Borrowings	796,705	484,980	748,324	–	2,030,009
Interest payments on borrowings	69,882	42,807	91,350	–	204,039
Financial liabilities included in trade and other payables	290,454	–	–	–	290,454
	1,157,041	527,787	839,674	–	2,524,502

The estimated amount of interest payments on borrowings are arrived based on the principal borrowing balance and prevailing interests rates at respective balance sheet dates up to the final maturity date of the borrowing agreements.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debts.

The net gearing ratios as at 31 December 2016 and 2015 are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Total borrowings	**1,520,732**	1,950,852
Less: cash and cash equivalents	**(446,830)**	(1,087,533)
Net debt	**1,073,902**	863,319
Total equity	**2,499,410**	2,219,315
Total capital	**3,573,312**	3,082,634
Gearing ratio	**30.05%**	28.01%

The increase in the gearing ratio during the year ended 31 December 2016 is resulted primarily from increase in net debt to finance the construction projects as well as the acquisitions in 2016.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

(a) The Group adopts the amendment to IFRS 7 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group did not have any financial assets or liabilities that are subsequently measured at fair value during the years ended 31 December 2016 and 2015.

(b) Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate their carrying amounts:

- Trade and other receivables (except for prepayments);

- Receivables under service concession arrangements;

- Cash and cash equivalents;

- Term deposits with initial term of over three months;

- Trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax); and

- Borrowings.

The fair value of non-current receivable under service concession arrangements, non-current amounts due from customers for construction contracts and non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group and the Company for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Scope of applying IFRIC 12 for certain wastewater treatment facilities

In determining whether the wastewater treatment facilities fall into the scope of IFRIC 12 “service concession arrangements”, the Group applied a lot of accounting judgements, including (i) whether the Grantor controls and can control any significant residual interest in the infrastructure asset; (ii) whether the Grantor is able to exercise control of the residual infrastructure through a call option to acquire the infrastructure asset at the end of the concession period; (iii) whether the Grantor is able to pledge the infrastructure during the whole concession period. For details of accounting policies for wastewater treatment facilities under different models, please refer to Note 2.6, 2.8 and 2.9.

(b) Estimated useful lives and residual values of property, plant and equipment

The Group’s management determines the estimated useful lives, residual values and related depreciation charges for the Group’s property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation charges in future periods.

(c) Impairment of trade and other receivables and receivables under service concession arrangements

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables and receivables under service concession arrangements. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact on both the carrying amount of the receivables and the impairment charge in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Current and deferred income tax

The Group is subject to income taxes in different areas in the PRC. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(e) Percentage of completion of construction and service contracts

The Group recognises revenue for construction work and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group’s management estimates the percentage of completion of construction or service work based on the actual cost incurred over the total budgeted cost, where the corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimation of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Service concession arrangements

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration received or receivable from the Grantor. Significant judgement is exercised in determining the fair value of the financial receivable at initial recognition. Discount rates, estimates of future cash flows and other factors are used in the valuation process. Any change in the expected cash flows will result in change in the carrying value of the financial receivable.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of financial receivables on the consolidated balance sheets, (ii) interest income, which will be recognised as revenue in the consolidated statements of comprehensive income, and (iii) revenue from operating and maintaining the water treatment plants in the consolidated statements of comprehensive income.

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and impairment losses. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

The carrying amounts of the operation concession carried as intangible assets in the consolidated balance sheets as at 31 December 2016 and 2015 were RMB44,778,000 and RMB49,901,000, respectively, while the receivables under service concession arrangements were RMB250,033,000 and RMB351,623,000, respectively.

(g) Recognition of government grants

As at 31 December 2016 and 2015, the Group accrued government grant receivables for value-added tax refund of RMB27,535,000 and RMB51,590,000(Note 15) respectively. Management considered there is reasonable assurance that the value-added tax refund can be received pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, and the grants were continuously received in 2015 and 2016. When the expectation is different from the original estimate, such differences will impact the timing of recognition of government grants and reflect in the period in which such estimate is changed.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as executive directors of the Company. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective.

The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management service and transportation service.

The executive directors of the Company assess the performance of the operating segments based on the measurement of revenue and operating profit.

Unallocated assets consist of deferred income tax assets and investments in associates. Unallocated liabilities consist of deferred income tax liabilities and current income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, property, plant and equipment and intangible assets.

FOR THE YEAR ENDED 31 DECEMBER 2016

5 SEGMENT INFORMATION *(Continued)*

(a) Revenue from all services

The revenue of the Group for the years ended 31 December 2016 and 2015 are set out as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wastewater treatment	**765,906**	702,666
Operating services -under TOO model	**697,322**	649,048
Operating services – under TOT/BOT model	**28,122**	8,858
Construction services-under BT model	**3,761**	11,933
Construction services-under BOT model	**22,426**	26,282
Finance income	**14,275**	6,545
Reclaimed water supply and running water supply	**62,366**	42,244
Operating services of reclaimed water supply-under TOO model	**6,814**	8,310
Operating services of running water supply- under TOT/BOT model	**5,668**	2,081
Construction services-under BT model	**11,711**	2,300
Construction services-under BOT model	**36,261**	28,740
Finance income	**1,912**	813
Others	**86,653**	80,197
Management services	**75,941**	74,557
Transportation services	**2,914**	1,973
Others	**7,798**	3,667
	914,925	825,107

FOR THE YEAR ENDED 31 DECEMBER 2016

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2016 is as follows:

	For the year ended 31 December 2016			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	765,906	62,366	86,653	914,925
Segment gross profit	386,938	3,292	35,251	425,481
Segment profit/(loss)	355,229	(468)	35,860	390,621
Finance income				16,670
Finance costs				(80,299)
Share of results of associates				(121)
Profit before income tax				326,871
Other information				
Depreciation of property, plant and equipment	157,011	4,642	709	162,362
Amortisation of land use rights	8,646	–	–	8,646
Amortisation of intangible assets	3,812	–	–	3,812
Capital expenditure	651,030	17,034	86	668,150

FOR THE YEAR ENDED 31 DECEMBER 2016

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

	As at 31 December 2016			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	4,220,160	331,504	13,029	4,564,693
Unallocated:				
Deferred income tax assets				23,697
Investments in associates				15,101
Total assets				4,603,491
Segment liabilities	2,036,766	9,494	3,932	2,050,192
Unallocated:				
Deferred income tax liabilities				9,321
Current income tax liabilities				44,568
Total liabilities				2,104,081

FOR THE YEAR ENDED 31 DECEMBER 2016

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2015 is as follows:

	For the year ended 31 December 2015			
Business segment	**Wastewater treatment**	**Water supply**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	702,666	42,244	80,197	825,107
Segment gross profit	343,366	4,679	30,095	378,140
Segment profit	280,741	1,241	30,186	312,168
Finance income				20,005
Finance costs				(64,064)
Share of results of associates				(367)
Profit before income tax				267,742
Other information				
Depreciation of property, plant and equipment	136,176	2,801	244	139,221
Amortisation of land use rights	7,495	–	–	7,495
Amortisation of intangible assets	3,066	–	–	3,066
Capital expenditure	381,600	26,353	–	407,953

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

	As at 31 December 2015			
Business segment	Wastewater treatment	Water supply	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	4,525,422	291,434	3,719	4,820,575
Unallocated:				
Deferred income tax assets				25,142
Investments in associates				15,222
Total assets				4,860,939
Segment liabilities	2,598,869	8,773	3,881	2,611,523
Unallocated:				
Deferred income tax liabilities				5,214
Current income tax liabilities				24,887
Total liabilities				2,641,624

(c) Geographical information

The Group has derived all of its business in the PRC, hence, geographical segment information is not considered necessary.

FOR THE YEAR ENDED 31 DECEMBER 2016

5 SEGMENT INFORMATION *(Continued)*

(d) Information about major customers

The major customer groups from whom the individual customer Group's revenue amounted to 10% or more of the Group's total revenue were as below:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Customer A	**487,008**	431,433
Customer B	**191,066**	217,510
	678,074	648,943

The customer portfolio of the Group is concentrated, which is consistent with the industry practise. If the customer A or customer B substantially defaults in payment or terminates the business relationship with the Group, it could materially affect the Group's financial position and results of operations.

6 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost	**479,091**	385,035
Accumulated amortisation	**(45,607)**	(37,475)
Net book value	**433,484**	347,560
Opening net book value	**347,560**	355,055
Additions	**98,984**	–
Disposals	**(4,414)**	–
Amortisation charges *(Note (a))*	**(8,646)**	(7,495)
Closing net book value	**433,484**	347,560

6 LAND USE RIGHTS *(Continued)*

(a) Amortisation of land use rights has been charged to the consolidated statements of comprehensive income (Note 26) as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**8,646**	7,495

7 LONG TERM PREPAYMENTS

The Company made prepayments to KDI before the year ended 31 December 2016 to purchase four wastewater treatment facilities under construction stage. According to the purchase agreement, the ownership of these wastewater treatment facilities will not be transferred to the Company unless KDI complete the construction and pass the required quality testing. In January 2016, KDI had completed the construction of three wastewater treatment facilities and transferred the ownership of these assets to the Company of RMB413,950,000.

As at 31 December 2016, some of the wastewater treatment facilities were still in the progress of quality testing and the underlying prepayments amounted to RMB450,000,000 (31 December 2015: RMB863,950,000).

FOR THE YEAR ENDED 31 DECEMBER 2016

8 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2015						
Opening net book value	898,371	440,531	28,306	11,611	324,462	1,703,281
Additions	184,566	17,222	15,939	5,352	176,709	399,788
Transfer	43,527	61,070	6,947	–	(111,544)	–
Disposals	(2,830)	–	–	(1)	–	(2,831)
Depreciation *(Note 25)*	(57,506)	(67,830)	(10,997)	(2,888)	–	(139,221)
Closing net book value	1,066,128	450,993	40,195	14,074	389,627	1,961,017
At 31 December 2015						
Cost	1,338,988	794,799	79,778	28,611	389,627	2,631,803
Accumulated depreciation	(272,860)	(343,806)	(39,583)	(14,537)	–	(670,786)
Net book value	1,066,128	450,993	40,195	14,074	389,627	1,961,017
Year ended 31 December 2016						
Opening net book value	1,066,128	450,993	40,195	14,074	389,627	1,961,017
Additions	343,882	75,111	30,779	1,422	113,800	564,994
Transfer	98,740	1,326	1,147	2,228	(103,441)	–
Acquisition of subsidiaries *(Note 35)*	5,039	3,298	103	350	34	8,824
Disposals	(3,343)	(14)	–	(27)	–	(3,384)
Depreciation *(Note 25)*	(72,856)	(73,429)	(12,782)	(3,295)	–	(162,362)
Closing net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089
At 31 December 2016						
Cost	1,783,245	874,146	111,807	32,402	400,020	3,201,620
Accumulated depreciation	(345,655)	(416,861)	(52,365)	(17,650)	–	(832,531)
Net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089

8 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The net book value of property, plant and equipment pledged as collateral for the Group's borrowings (Note 20) as at the respective balance sheet dates were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Buildings and facilities	**298,705**	321,688
Machinery and equipment	**137,722**	166,835
	436,427	488,523

(b) Depreciation of property, plant and equipment has been charged to the consolidated statements of comprehensive income (Note 25) as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**158,388**	136,466
Administrative expenses	**3,974**	2,755
	162,362	139,221

(c) As at 31 December 2016, the Group is still in the process of applying for the building ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB59,459,000 (31 December 2015: RMB60,259,000).

(d) During the year ended 31 December 2016, the Group has capitalised borrowing costs amounting to RMB8,544,000 on qualifying assets (31 December 2015: RMB11,337,000). Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.07% during the year ended 31 December 2016 (2015: 6.53%).

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain arrangements with governmental authorities in the PRC under TOT or BOT models in respect of its wastewater treatment and water supply services (the "**Facilities**"). These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for those arrangements under TOT models; (ii) constructing the Facilities for those arrangements under BOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 24.6 to 30 years (the "**Service Concession Periods**"), and the Group will be paid for its services over the service concession periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

As further explained in the accounting policy for "service concession arrangements" set out in Note 2.9 to the consolidated financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) (Note 10) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The effective interest rate fell within the range from 6.51% to 9.23%.

The following is the summarised information of the financial asset component (receivable under a service concession arrangement) with the respect to the Group and Company's service concession arrangements.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Receivables under service concession arrangements		
Current portion:	**9,679**	6,132
Non-current portion:	**341,944**	243,901
	351,623	250,033

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS *(Continued)*

In respect of the Group and Company's receivables under service concession arrangements, the various group companies have different credit policies, depending on the locations in which they operate. Collection of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of the Group's service concession arrangements. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances still considered fully recoverable.

The directors of the Company are of the view that, as at 31 December 2016 and 2015, none of the receivables under service concession arrangements is past due and impaired.

10 INTANGIBLE ASSETS

	Computer software *RMB'000*	Operating concession *RMB'000*	Development cost *RMB'000*	Total *RMB'000*
Year ended 31 December 2015				
Opening net book value	17,826	11,135	440	29,401
Additions	561	–	7,604	8,165
Acquisition of subsidiaries *(Note 35)*	–	34,147	–	34,147
Amortisation *(Note 25)*	(2,562)	(504)	–	(3,066)
Closing net book value	15,825	44,778	8,044	68,647
At 31 December 2015				
Cost	22,372	45,553	8,044	75,969
Accumulated amortisation	(6,547)	(775)	–	(7,322)
Net book value	15,825	44,778	8,044	68,647
Year ended 31 December 2016				
Opening net book value	**15,825**	**44,778**	**8,044**	**68,647**
Additions	**1,351**	**–**	**2,822**	**4,173**
Acquisition of subsidiaries *(Note 35)*	**–**	**6,189**	**–**	**6,189**
Amortisation *(Note 25)*	**(2,746)**	**(1,066)**	**–**	**(3,812)**
Closing net book value	**14,430**	**49,901**	**10,866**	**75,197**
At 31 December 2016				
Cost	**23,723**	**51,742**	**10,866**	**86,331**
Accumulated amortisation	**(9,293)**	**(1,841)**	**–**	**(11,134)**
Net book value	**14,430**	**49,901**	**10,866**	**75,197**

10 INTANGIBLE ASSETS *(Continued)*

(a) Amortisation of intangible assets has been charged to the consolidated statements of comprehensive income(Note 25) as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**1,066**	504
Administrative expenses	**2,746**	2,562
	3,812	3,066

(b) Impairment assessment

(i) Operating concession

The recoverable amount of operation concession which are not yet available for use is determined based on the value-in-use calculation using cash flow projections, based on financial forecast approved by management. And management's assumptions and estimation including forecast of utilisation, discount rate and useful lives of 26 to 28 years. The discount rate used in measuring value-in-use was 11% to 12%, which are pre-tax and reflect special risk relating to operating concessions.

(ii) Development cost

The recoverable amount is determined based on the value-in-use calculation using cash flow projections, based on financial forecast on cost savings approved by management and management's assumptions and estimation including forecast of cost savings, discount rate and useful life of 15 years after the expected completion date of the development in 2017. The discount rate used in measuring value-in-use was 16%, which is pre-tax and reflect special risk relating to development cost.

11 INVESTMENTS IN ASSOCIATES

Investments accounted for using the equity method refer to the associates held by the Group and the Company, a movement of which is set out as follows.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Beginning of the year	**15,222**	15,389
Additions	**–**	200
Share of associates' results	**(121)**	(367)
End of the year	**15,101**	15,222

Particulars of the Group's investments in associates during the years ended 31 December 2016 and 2015, which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital	Attributable equity interests to the Group As at 31 December 2016	Attributable equity interests to the Group As at 31 December 2015	Principal activities
Kunming Dianchi Information Construction Management Co., Ltd. (昆明滇池信息建設管理有限公司, "**Dianchi Information**")	PRC, 14 May 2012	2,500	**40%**	40%	Construction of the communication pipeline;
Yunnan Dianchi Jiajing Environmental Technology Co., Ltd. (雲南滇池嘉淨環保科技有限公司, "**Dianchi Jiajing**")	PRC, 13 April 2012	11,600	**40%**	40%	Research and promotion of the environment technology
Kunming Zaojing Quanxiang Biological Technology Co., Ltd. (昆明藻井泉香生物科技有限公司, "**Kunming Zaojing**")	PRC, 12 August 2010	8,000	**35%**	35%	Research and development of the biological products

FOR THE YEAR ENDED 31 DECEMBER 2016

11 INVESTMENTS IN ASSOCIATES *(Continued)*

The Group's investments in associates and certain of its key financial information attributable to the Group are as follows:

Year	Assets	Liabilities	Revenues	Losses	Net assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016	**9,335**	**3,192**	**728**	**(121)**	**6,143**
Year ended 31 December 2015	10,147	3,883	653	(367)	6,264

No individual associate is considered as material to the Group.

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deferred income tax assets:		
– to be recovered within 12 months	**1,468**	949
– to be recovered after more than 12 months	**22,229**	24,193
	23,697	25,142
Deferred income tax liabilities:		
– to be recovered within 12 months	**149**	131
– to be recovered after more than 12 months	**9,172**	5,083
	9,321	5,214

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(Continued)*

Movement in deferred income tax assets and liabilities during the years ended 31 December 2016 and 2015, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets	**Tax losses carried forward *(Note a)***	**Government grant**	**Depreciation and amortisation differences arising from the revaluation results *(Note b)***	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	3,365	6,163	5,497	15,025
Recognised in the consolidated statements of comprehensive income	(1,760)	10,420	(392)	8,268
Recognised directly in the equity *(Note(b))*	–	–	2,407	2,407
At 31 December 2015	1,605	16,583	7,512	25,700
Recognised in the consolidated statements of comprehensive income	(300)	(523)	(473)	(1,296)
At 31 December 2016	**1,305**	**16,060**	**7,039**	**24,404**

(a) Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. Carrying forward of these tax losses will expire, if unused, in the years ending 31 December 2017 to 31 December 2021.

(b) As described in Note 6 and Note 8, certain wastewater treatment facilities and land use rights were recorded at the carrying amounts from KDI's perspective in the consolidated financial statements, which are different from tax bases of these assets. The deferred income tax assets arising from such differences were initially recognised as a credit to reserve.

FOR THE YEAR ENDED 31 DECEMBER 2016

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(Continued)*

Deferred income tax liabilities	Fair value adjustment arising from acquisition of subsidiaries	Differences arising from service concession receivables	Differences arising from construction contracts	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	3,234	564	152	115	4,065
Acquisition of subsidiaries *(Note 35)*	198	–	–	–	198
Recognised in the consolidated statements of comprehensive income	(127)	1,344	263	29	1,509
At 31 December 2015	3,305	1,908	415	144	5,772
Acquisition of subsidiaries *(Note 35)*	434	–	–	–	434
Recognised in the consolidated statements of comprehensive income	(142)	3,818	280	(134)	3,822
At 31 December 2016	**3,597**	**5,726**	**695**	**10**	**10,028**

FOR THE YEAR ENDED 31 DECEMBER 2016

13 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Materials for wastewater treatment and water distribution services	**4,245**	1,835
Spare parts	**6,091**	4,770
	10,336	6,605

No provision for inventories has been made during the year ended 31 December 2016 (2015: nil).

The cost of inventories recognised as cost of sales amounted to approximately RMB42,710,000, for the year ended 31 December 2016(31 December 2015: RMB38,402,000).

14 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Costs incurred to date plus recognised profits less recognised losses		
Current portion:	**5,716**	6,104
Non-current portion:	**35,573**	28,485
	41,289	34,589

FOR THE YEAR ENDED 31 DECEMBER 2016

15 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*:		
– Third parties	**941**	439
– Related parties *(Note 36)*	**39,678**	87,728
– Local government	**85,381**	9,417
Trade receivables – net	**126,000**	97,584
Other receivables:		
– Third parties	**6,539**	25,313
– Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, "**Hongze Water**") *(Note b)*	**41,725**	–
– Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "**Qutang Water**") *(Note b)*	**3,744**	–
– Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "**Libao Water**") *(Note b)*	**2,279**	–
– Related parties *(Note 36)*	**39,472**	24,020
– Local government	**51,590**	27,535
Other receivables – net	**145,349**	76,868
Prepayments:		
– Listing expenses	**28,946**	13,521
– Others	**6,600**	1,789
Prepayments – net	**35,546**	15,310
Trade and other receivables – net	**306,895**	189,762

As at 31 December 2016 and 2015, the fair value of the current portion of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2016 and 2015, the carrying amounts of trade and other receivables are denominated in RMB.

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates, are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Within one year	**125,542**	95,502
– Over one year and within two years	**458**	2,082
	126,000	97,584

Based on the past experiences, the directors believe that no impairment allowance is necessary because the customers are mainly local government authorities in Kunming and related parties and there has not been a significant change in their credit quality. Accordingly, these long-aged balances are considered fully recoverable.

The Group does not hold any collateral as security over these debtors.

(b) RMB41,725,000, RMB3,744,000 and RMB2,279,000 was granted to Hongze Water, Qutang Water and Libao Water respectively and all of the three companies were acquired by the Group in January 2017.

16 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash and cash equivalents	**446,830**	1,087,533

(a) All cash and cash equivalents are denominated in RMB.

(b) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates ranged from 0.35% to 1.54% during the year ended 31 December 2016(2015: 0.35% to 1.54%).

17 SHARE CAPITAL

	As at 31 December	
	2016	2015
Registered, issued and fully paid		
Number of shares *(in thousand)*	**720,000**	720,000
Share capital *(in RMB'000)*	**720,000**	720,000

(a) The Company was established on 23 December 2010, with an initial registered share capital of RMB360,000,000, divided into 360,000,000 shares with a nominal value of RMB1.00 each. 344,943,000 shares or 95.82% equity interest amounting to RMB1,260,091,000 were issued to KDI at a premium of RMB915,148,000, in exchange for the property, plant and equipment and land use rights under TOO Model of RMB1,189,277,000, certain investments in subsidiaries of RMB5,814,000, and cash of RMB65,000,000. The remaining 15,057,000 shares or 4.18% equity interest amounting to RMB55,000,000 were issued to other four shareholders at a premium of RMB39,943,000, Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "**DIG**"), Kunming Industrial Development and Investment Co., Ltd. (昆明產業開發投資有限責任公司, "**IDI**"), Kunming State-owned Assets Management and Operation Co., Ltd. (昆明市國有資產管理運營有限責任公司, "**Kunming State-Owned Asset Management**") and Kunming Xindu Real Estate Co., Ltd. (昆明新都置業有限公司, "**Xindu Real Estate**").

The capital contributions were paid up by two instalments. The first instalment of RMB1,208,841,000 was received upon the establishment of the Company and the second instalment of RMB106,250,000 was received in the year ended 31 December 2012. The excess of the assets or cash consideration received by the Company over the share capital with the amount of RMB955,091,000 was recorded as share premium. In 2015, RMB360,000,000 was converted from share premium into share capital.

(b) On 12 October 2015, as approved by the shareholders of the Company, the Company increased its share capital by issuing 360,000,000 ordinary shares of RMB1.00 each. The consideration for these newly issued ordinary shares was satisfied for by way of capitalisation of share premium of RMB360,000,000 to share capital.

(c) On 6 April 2017, the Company completed its global initial public offering of shares by issuing 308,752,000 H shares at a price of HK$3.91 per share. The number of shares and share capital increased to 1,028,572,000 and RMB1,028,572,000 respectively.

18 OTHER RESERVES

	Share premium *(Note 17(b))*	Statutory reserve *(Note (a))*	Capital reserve *(Note (b))*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	955,091	98,982	44,989	1,099,062
Appropriation to statutory reserves	–	22,781	–	22,781
Deemed distributions to KDI by the Group	–	–	(95,189)	(95,189)
Deferred tax assets arising from revaluation results *(Note(12))*	–	–	2,407	2,407
Increase in share capital by capitalisation of share premium	(360,000)	–	–	(360,000)
At 31 December 2015	595,091	121,763	(47,793)	669,061
Appropriation to statutory reserves	–	27,452	–	27,452
At 31 December 2016	**595,091**	**149,215**	**(47,793)**	**696,513**

(a) Statutory reserve

In accordance with the PRC Company Law and the articles of association of the PRC companies of the Group (the "**PRC Companies**"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

FOR THE YEAR ENDED 31 DECEMBER 2016

18 OTHER RESERVES *(Continued)*

(b) Capital reserve

Capital reserve mainly represented the existing book value from KDI's prospective of certain acquired wastewater treatment facilities and land use rights transferred to the Group from KDI, which did not form part of the capital contribution in the form of share capital in 2010 (Note 17(a)), netting of the consideration of these assets and the deferred tax impact. These wastewater treatment facilities and land use rights were included in the consolidated financial statements as if they had been consolidated from the earliest period presented.

19 RETAINED EARNINGS

	Group
	RMB'000
At 1 January 2015	867,424
Profit for the year	237,611
Appropriation to statutory reserves *(Note 18)*	(22,781)
Dividends declared and paid to the Company's shareholders *(Note 32)*	(252,000)
At 31 December 2015	830,254
Profit for the year	274,993
Appropriation to statutory reserves *(Note 18)*	(27,452)
At 31 December 2016	**1,077,795**

20 BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current:		
Unsecured long-term borrowings	**–**	310,000
Secured long-term borrowings *(Note (b))*	**48,356**	167,908
Corporate bonds *(Note (c))*	**693,639**	692,731
Total non-current borrowings	**741,995**	1,170,639
Current:		
Unsecured short-term borrowings	**660,000**	660,000
Secured short-term borrowings *(Note (b))*	**118,737**	120,213
Total current borrowings	**778,737**	780,213
Total borrowings	**1,520,732**	1,950,852

(a) All the borrowings were denominated in RMB.

(b) As at 31 December 2016 and 2015, analysis of the secured borrowings are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Secured by:		
Property, plant and equipment *(Note 8)*	**167,093**	288,121

(c) As approved by the National Development and Reform Commission on 25 November 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum on 25 December 2015. At the end of the fifth year, the Company can adjust the interest rate within a range of 0.00% to 3.00% for the remaining 2-year period, and the investors have an option to request early redemption at par value of the outstanding corporate bond if they don't agree the adjusted interest rate.

FOR THE YEAR ENDED 31 DECEMBER 2016

20 BORROWINGS *(Continued)*

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is earlier are as follows:

	6 months or less *RMB'000*	Between 6 and 12 months *RMB'000*	Between 1 and 5 years *RMB'000*	Total *RMB'000*
As at 31 December 2016	317,093	510,000	693,639	1,520,732
As at 31 December 2015	**618,121**	**330,000**	**1,002,731**	**1,950,852**

(e) The maturity of borrowings is as follows:

	As at 31 December 2016 *RMB'000*	2015 *RMB'000*
On demand or within 1 year	**778,737**	780,213
Between 1 and 2 years	**48,356**	430,769
Between 2 and 5 years	**–**	47,139
Later than 5 years	**693,639**	692,731
	1,520,732	1,950,852

(f) The weighted average effective interest rates for borrowings at each balance sheet date are as follows:

	As at 31 December 2016	2015
Borrowings	**4.78%**	5.48%

Interest rates of borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

20 BORROWINGS *(Continued)*

(g) The fair values of current borrowings equal their carrying amount as the discounting impact is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of non-current borrowings approximated to their carrying amount.

(h) The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB facilities	**740,000**	860,000

21 DEFERRED REVENUE

Deferred revenue of the Group and the Company included government grants in respect of the Group or the Company's construction of various facilities and wastewater treatment facilities as well as the conduction of research and development activities.

Government grants relating to property, plant and equipment are recognised to the consolidated statements of comprehensive income on a straight-line basis over the estimated lives of the related assets.

Government grants relating to research and development activities are recognised in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants related to:		
– property plant and equipment	**95,835**	101,396
– research and development activities	**11,286**	9,227
	107,121	110,623

FOR THE YEAR ENDED 31 DECEMBER 2016

21 DEFERRED REVENUE *(Continued)*

The movement of government grants during the years ended 31 December 2016 and 2015 is set out as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Opening net book value	**110,623**	41,157
Additions	**30,250**	76,237
Decrease *(Note (a))*	**(22,000)**	–
Amortisation *(Note 23)*	**(11,752)**	(6,771)
Closing net book value	**107,121**	110,623

(a) As the result of the cease of certain project, relevant government grants of RMB22,000,000 was returned according to resolution of the meeting among Kunming Development and Reform Commission, KDI and the Company in 2016. The project was yet to start, and no amortisation of deferred revenue was recognised.

FOR THE YEAR ENDED 31 DECEMBER 2016

22 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**2,093**	717
Other payables due to:	**53,176**	162,947
– related parties *(Note 36)*	**20,881**	129,785
– third parties	**32,295**	33,162
Consideration payable for acquisition of subsidiaries *(Note 35)*	**18,447**	26,067
Staff salaries and welfare payables	**28,661**	21,075
Advance from customers	**12,177**	160,099
– related parties *(Note 36)*	**9,879**	–
– local government	**–**	153,760
– third parties	**2,298**	6,339
Payables of property, plant and equipment due to:	**151,957**	100,723
– related parties *(Note 36)*	**29,769**	19,842
– third parties	**122,188**	80,881
Payables on acquisition of land use rights from related parties *(Note 36)*	**58,194**	–
Interest payables	**1,310**	1,998
Accrued taxes other than income tax	**96,324**	76,422
	422,339	550,048

(a) As at 31 December 2016 and 2015, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

(b) During the years ended 31 December 2016 and 2015, the Group's trade and other payables are denominated in RMB.

FOR THE YEAR ENDED 31 DECEMBER 2016

22 TRADE AND OTHER PAYABLES *(Continued)*

(c) Ageing analysis of trade payables to third parties at the respective balance sheet dates is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Within one year	**2,093**	702
– Over one year and within two years	**–**	7
– Over two years and within three years	**–**	8
	2,093	717

23 OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants:	**75,312**	38,674
– relating to property plant and equipment	**5,461**	3,346
– relating to research and development activities	**6,291**	3,425
– relating to tax refund *(Note (a))*	**63,560**	31,903
Interest income from cash and cash equivalents	**3,329**	1,579
Others	**3,378**	2,006
	82,019	42,259

(a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, companies who sell self-produced products made with integrated utilised resources or provides labor services for integrated utilization of resources can enjoy the policy of value-added tax ("**VAT**") refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% tax refund proportions respectively.

FOR THE YEAR ENDED 31 DECEMBER 2016

24 OTHER LOSSES – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment – net	**3,219**	2,830
Gains on disposal of land use right – net	**(2,420)**	–
Donation expenses	**–**	6
Others	**473**	(62)
	1,272	2,774

25 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Depreciation of properties, plant and equipment *(Note 8)*	**162,362**	139,221
Utilities and electricity	**80,779**	91,160
Employee benefit expenses *(Note 26)*	**97,546**	76,303
Costs of wastewater and water distribution services	**54,100**	49,045
– Material costs	**42,710**	38,402
– Costs for sludge and water hyacinth treatment	**11,390**	10,643
Cost of construction services	**74,159**	69,255
Taxes and levies	**27,796**	16,714
Transportation costs	**11,326**	10,684
Repair and maintenance costs	**19,166**	14,188
Commission charge *(Note 36)*	**7,692**	7,123
Amortisation of land use rights *(Note 6)*	**8,646**	7,495
Office expenditures	**9,960**	8,420
Labour costs	**14,617**	13,312
Professional expenses	**13,337**	10,726
Material used in research and development activities	**3,685**	17,914
Amortisation of intangible assets *(Note 10)*	**3,812**	3,066
Auditor's remuneration	**311**	222
Listing expenses	**2,507**	1,409
Miscellaneous	**13,250**	16,167
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**605,051**	552,424

26 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS)

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**72,488**	56,391
Contributions to pension plans *(Note (a))*	**12,413**	9,812
Housing fund, medical insurance and other social insurance *(Note (b))*	**12,645**	10,100
	97,546	76,303

(a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 26% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 25.4% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

During the years ended 31 December 2016 and 2015, no director received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

FOR THE YEAR ENDED 31 DECEMBER 2016

27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executives' emoluments

Directors and chief executives' emoluments for the years ended 31 December 2016 and 2015 are set out as follows:

	Fees	Salary	Employer's contribution to Discretionary bonuses	Benefit scheme	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016						
Executive directors						
Ms. Guo Yumei (郭玉梅) *(i)*	–	180	–	32	59	271
Mr. Luo Yun (羅雲) *(ii)*	–	144	–	28	55	227
Non-executive directors						
Mr. Zeng Feng (曾鋒) *(iii)*	–	–	–	–	–	–
Ms. Song Hong (宋紅) *(iv)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Wong Man Chung Francis (黃文宗) *(v)*	–	–	–	–	–	–
Mr. Yin Xiaobing (尹曉冰) *(vi)*	–	–	–	–	–	–
Mr. He Xifeng (何錫鋒) *(vii)*	–	–	–	–	–	–
Supervisors						
Mr. Na Zhiqiang (那志強) *(viii)*	–	144	–	28	54	226
Mr. Yao Jianghua (姚建華) *(ix)*	–	173	–	31	54	258
Mr. Shao Wei (邵偉) *(x)*	–	–	–	–	–	–
Chief executive						
Mr. Mei Yili (梅益立) *(xi)*	–	144	–	32	59	235
Mr. Yang Yang (楊陽) *(xii)*	–	144	–	28	50	222
	–	929	–	179	331	1,439

27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

Directors and chief executives' emoluments for the years ended 31 December 2016 and 2015 are set out as follows:

	Fees	Salary	Discretionary bonuses	Employer's contribution to Benefit scheme	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2015						
Executive directors						
Ms. Guo Yumei (郭玉梅) *(i)*	–	177	–	83	–	260
Mr. Luo Yun (羅雲) *(ii)*	–	191	143	74	–	408
Non-executive directors						
Mr. Zeng Feng (曾鋒) *(iii)*	–	–	–	–	–	–
Independent non-executive directors						
Supervisors						
Mr. Na Zhiqiang (那志強) *(viii)*	–	174	101	73	–	348
Mr. Yao Jianghua (姚建華) *(ix)*	–	153	54	73	–	280
Chief executive						
Mr. Mei Yili (梅益立) *(xi)*	–	144	–	83	–	227
Mr. Yang Yang (楊陽) *(xii)*	–	133	–	50	–	183
	–	972	298	436	–	1,706

(i) Ms. Guo Yumei was appointed as an executive director of the Company in January 2011, and the chairperson of the board in June 2016.

(ii) Mr. Luo Yun was appointed as an executive director of the Company in June 2016. Mr. Luo served as the assistant to general manager from June 2013 to January 2015 and was appointed as the deputy general manager of the Company since January 2015.

27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

(iii) Mr. Zeng Feng was appointed as a non-executive director of the Company in January 2011.

(iv) Ms. Song Hong was appointed as a non-executive director of the Company in June 2016.

(v) Mr. Wong Man Chung Francis was appointed as an independent non-executive director in June 2016.

(vi) Mr. Yin Xiaobing was appointed as an independent non-executive director in June 2016.

(vii) Mr. He Xifeng was appointed as an independent non-executive director in June 2016.

(viii) Mr. Na Zhiqiang was appointed as the chairman of the Board of Supervisors and an employee representative supervisor in January 2011.

(ix) Mr. Yao Jianghua was appointed as an employee representative supervisor in January 2011.

(x) Mr. Shao Wei was appointed as a supervisor in May 2016.

(xi) Mr. Mei Yili was appointed as the deputy general manager of the Company since January 2015. Mr. Mei Yili served as management role in different subsidiaries of the Company and the Controlling Shareholder before the appointment as chief executive in the Company.

(xii) Mr. Yang Yang was appointed as the chief financial officer of the Company in January 2015.

(b) Directors' retirement benefits

There is no retirement benefits by a defined benefit pension plan operated by the Group.

(c) Directors' termination benefits

There is no directors' termination benefits operated by the Group.

27 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, no consideration was provided to third parties for making available directors' services (2015: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors

During the year ended 31 December 2016, there were no loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors (2015: nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016 (2015: nil).

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 2 director, 2 supervisor and 1 chief executive for the years ended 31 December 2016 and 2015. Their emoluments are reflected in the analysis presented above.

FOR THE YEAR ENDED 31 DECEMBER 2016

28 FINANCE COSTS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income:		
– Interest income from term deposits	**–**	1,541
Interest income charged to related parties *(Note 36)*	**14,693**	16,644
– Interest income arising from construction contracts	**1,923**	1,754
– Others	**54**	66
	16,670	20,005
Finance costs:		
– Interest expenses on unsecured borrowings	**(45,107)**	(52,143)
– Interest expenses on corporate bonds	**(31,360)**	(514)
– Interest expenses on secured borrowings	**(12,314)**	(22,700)
– Total interest expenses on borrowings	**(88,781)**	(75,357)
– Less: borrowing costs capitalised in property, plant and equipment *(Note 8(d))*	**8,544**	11,337
– Interest expenses – net	**(80,237)**	(64,020)
– Others	**(62)**	(44)
	(80,299)	(64,064)
Finance costs – net	**(63,629)**	(44,059)

29 INCOME TAX EXPENSE

The amounts of income tax expense charged to the consolidated statements of comprehensive income represent:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**46,075**	36,890
Deferred income tax *(Note 12)*	**5,118**	(6,759)
Income tax expense	**51,193**	30,131

The Group was not subject to Hong Kong profits tax during the years ended 31 December 2016 and 2015 as there was no assessable income arising in or derived from Hong Kong.

Under the Law of the PRC on Corporate Income Tax (the "**CIT Law**") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries during the years ended 31 December 2016 and 2015, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

(a) China's west region development policy (the "**West Region Development Policy**") is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in west region of China. During the years ended 31 December 2016 and 2015, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

(b) In addition to the West Region Development Policy, the Company also qualifies as a "High-tech Enterprise" and enjoys a 15% enterprise income tax rate during the years ended 31 December 2016 and 2015.

(c) Certain newly upgraded wastewater treatment facilities meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments, and are entitled to three years' exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.

29 INCOME TAX EXPENSE *(Continued)*

(d) Certain subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments as its major raw materials and enjoyed 10% deduction of CIT.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**326,871**	267,742
Tax calculated at the domestic CIT rate applicable	**81,718**	66,936
Tax effect of:		
Expenses not deductible for tax purpose *(Note (i))*	**261**	181
Preferential tax rate of certain subsidiaries *(Note (a) and (b))*	**(30,653)**	(36,923)
Income not subject to income tax *(Note (c))*	**(156)**	(125)
Share of results of associates	**18**	55
Others	**5**	7
Income tax expense	**51,193**	30,131

(i) Expenses not deductible for tax purpose primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law, write-off of inventories and receivables without tax authorities' approval.

30 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for each of year ended 31 December 2016 have been dealt with in the financial statements of the Company to the extent of approximately RMB252,010,000 (2015: RMB220,061,000).

FOR THE YEAR ENDED 31 DECEMBER 2016

31 EARNINGS PER SHARE

(a) Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The basic earnings per share for the years ended 31 December 2016 and 2015 are calculated based on the assumption that the 360,000,000 shares issued and fully paid by way of capitalisation of share premium in October 2015 (Note 17(b)) have been issued since 1 January 2015, the earliest date presented in this report.

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company *(RMB'000)*	**274,993**	237,611
Weighted average number of ordinary shares in issue *(thousand)*	**720,000**	720,000
Basic earnings per share *(RMB)*	**0.38**	0.33

(b) The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the years ended 31 December 2016 and 2015.

32 DIVIDENDS

As approved by the shareholders' meeting on 17 December 2015, the Company declared dividends of RMB252,000,000 in respect of the accumulated distributable profit as at 31 December 2014. The declaration of dividends has been reflected as an appropriation of retained earnings during the year ended 31 December 2015. The dividends were paid out in the year ended 31 December 2015.

In accordance with the resolution at the meeting of the Board dated 25 April 2017, the Board proposed a cash dividend of RMB102,857,200 (RMB0.10 per share (pre-tax)) based on a total number of 1,028,572,000 shares. Such dividend distribution is subject to the approval at the forthcoming annual general meeting.

FOR THE YEAR ENDED 31 DECEMBER 2016

33 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year before income tax	**326,871**	267,742
Adjustments for:		
– Depreciation of property, plant and equipment	**162,362**	139,221
– Amortisation of land use rights	**8,646**	7,495
– Amortisation of intangible assets	**3,812**	3,066
– Share of results of associates	**121**	367
– Finance costs -net	**63,567**	44,015
– Amortisation of government grants relating to purchase of property, plant and equipment	**(5,461)**	(3,346)
– Loss on disposal of property, plant and equipment	**3,219**	2,830
– Gains on disposal of land use rights	**(2,420)**	–
	560,717	461,390
Changes in working capital:		
– (Increase)/decrease in trade and other receivables	**(85,184)**	455,352
– Increase in inventories	**(2,384)**	(183)
– Increase in amount due from customers for construction contracts	**(4,830)**	(6,985)
– Increase in receivables under service concession arrangements	**(65,918)**	(56,941)
– Increase/(decrease) in deferred revenue relating to research and development activities	**2,059**	(1,259)
– (Decrease)/increase in trade and other payables	**(258,698)**	226,699
Cash generated from operations	**145,762**	1,078,073

FOR THE YEAR ENDED 31 DECEMBER 2016

33 CASH GENERATED FROM OPERATIONS *(Continued)*

(b) In the consolidated cash flow statements, proceeds from disposal of properties, plant and equipment comprise:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net book value *(Note 8)*	**3,384**	2,831
Losses on disposal of property, plant and equipment *(Note 24)*	**(3,219)**	(2,830)
Proceeds from the disposal	**165**	1

(c) In the consolidated cash flow statements, proceeds from disposal of land use rights comprise:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net book value *(Note 6)*	**4,414**	–
Gains on disposal of land use rights *(Note 24)*	**2,420**	–
Proceeds from the disposal	**6,834**	–

34 COMMITMENTS

(a) Capital commitments

(i) Capital expenditures contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment	**458,123**	499,504
Land use rights and intangible assets	**16,978**	17,787
	475,101	517,291

(ii) Acquisition of equity interests in subsidiaries:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Acquisition of equity interests in subsidiaries	**–**	3,294

(iii) Acquisition of business under TOT/BOT model:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Acquisition of business under TOT/BOT model	**–**	11,000

34 COMMITMENTS *(Continued)*

(b) Operating lease commitments – the Group as lessee

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**121**	121
Later than 1 year and no later than 2 year	**121**	121
Later than 2 year and no later than 5 year	**363**	363
Later than 5 years	**2,374**	2,495
	2,979	3,100

FOR THE YEAR ENDED 31 DECEMBER 2016

35 BUSINESS COMBINATIONS

During the year ended 31 December 2016, the Group acquired equity interests in certain subsidiaries from independent third parties. Details of the acquisitions are as follows:

(i) On 1 January 2016, Ziyunxian Dianchi Water Treatment Co., Ltd. (紫雲縣滇池水務有限公司, "**Ziyun Water**"), a subsidiary of the Group, acquired the service concession contract from local government at a consideration of RMB11,000,000. The Group did not assume any liability from the historical operation.

Ziyun Water's principal activities are wastewater treatment, and it was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired from the acquisition are as follows:

	As at 1 January 2016
	RMB'000
Consideration:	
Cash consideration	**11,000**
Recognised amounts of identifiable assets acquired:	
Receivables under service concession arrangements	**9,900**
Intangible assets	**1,100**
Total identifiable net assets	**11,000**

Receivables under service concession arrangements of RMB9,900,000 and an intangible asset of concession rights of RMB1,100,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2016 contributed by Ziyun Water was approximately RMB1,404,000. Ziyun Water also contributed profit of approximately RMB553,000 over the same period.

FOR THE YEAR ENDED 31 DECEMBER 2016

35 BUSINESS COMBINATIONS *(Continued)*

(ii) On 9 May 2016, the Group acquired 100% of the equity interests in Guizhou Bafang Water Treatment Co., Ltd. (貴州八方水務尋有限公司, "**Bafang Water**") at a consideration of RMB9,577,000. After the acquisition, Bafang Water became a directly owned subsidiary of the Group.

Bafang Water's principal activities are wastewater treatment, and were acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 9 May 2016
	RMB'000
Consideration:	
Cash consideration	**9,577**
Recognised amounts of identifiable assets acquired:	
Cash and cash equivalents	**1,815**
Receivables under service concession arrangements	**25,772**
Intangible assets	**5,089**
Property, plant and equipment	**645**
Trade and other receivables	**4,496**
Trade and other payables	**(27,806)**
Deferred tax liabilities	**(434)**
Total identifiable net assets	**9,577**

Receivables under service concession arrangements of RMB25,772,000 and an intangible asset of concession rights of RMB5,089,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2016 contributed by Bafang Water was approximately RMB7,613,000. Bafang Water also contributed profit of approximately RMB2,725,000 over the same period.

Had Bafang Water been consolidated from 1 January 2016, the annualised consolidated revenue and profit of the Group would be increased by approximately RMB3,036,000 and RMB1,141,000, respectively.

35 BUSINESS COMBINATIONS *(Continued)*

(iii) On 25 May 2016, the Group acquired 51% of the equity interests in Kunming He'ertai Environmental industry and trade Co., Ltd. (昆明和而泰環保工貿有限責任公司, "**He'ertai Environmental**") at a consideration of RMB4,597,000. After the acquisition, He'ertai Environmental became a directly owned subsidiary of the Group.

He'ertai Environmental's principal activities are water treatment, and were acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows

	As at 25 May 2015
	RMB'000
Consideration:	
Cash consideration	4,597
Recognised amounts of identifiable assets acquired:	
Cash and cash equivalents	380
Property, plant and equipment	8,179
Trade and other receivables	639
Inventories	1,347
Trade and other payables	(1,531)
Total identifiable net assets	9,014
Non-controlling interests	(4,417)
Total identifiable net assets attributable to equity holders of the Company	4,597

The directors of the Company are of the view that, the fair value of its identifiable assets and liabilities approximated to their carrying amount, and the non-controlling interests were recognised proportionately.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2016 contributed by He'ertai Environmental was approximately RMB11,045,000. He'ertai Environmental also contributed profit of approximately RMB1,398,000 over the same period.

Had He'ertai Environmental been consolidated from 1 January 2016, the consolidated revenue of the Group would be increased by approximately RMB5,348,000 and the consolidated profit of the Group would be decreased by RMB812,000, respectively.

35 BUSINESS COMBINATIONS *(Continued)*

(iv) The following table summarised the cash flows from the acquisitions for the year ended 31 December 2016:

	As at 31 December 2016
	RMB'000
Total cash consideration	25,174
Less: change in consideration payable in respect of acquisition of subsidiaries *(Note 22)*	7,620
cash and cash equivalents in the subsidiaries acquired	(2,195)
change in prepayments *(a)*	69,071
Cash outflows from the acquisitions	99,670

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Company is controlled by KDI, which is a government-related enterprise established in the PRC by Kunming SASAC. In accordance with IAS 24 (Revised), "Related Party Disclosures", issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the consolidated financial statements.

36 RELATED PARTY TRANSACTIONS *(Continued)*

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2016 and 2015, and balances arising from related party transactions as at 31 December 2016 and 2015.

(a) Name and relationship with related parties

Name of related party	**Nature of relationship**
KDI	Controlling shareholder of the Company
DIG	Controlled by Kunming SASAC and a minority shareholder of the Company
IDI	Controlled by Kunming SASAC and a minority
shareholder of the Company	
Kunming State-Owned Asset Management	Controlled by Kunming SASAC and a minority shareholder of the Company
Xindu Real Estate	Controlled by Kunming SASAC and a minority shareholder of the Company
Xindu Investment	Controlled by Kunming SASAC
Kunming CGE Water Supply Co., Ltd. (昆明通用水務自來水有限公司, "**Kunming CGE**")	Controlled by Kunming SASAC
Kunming Qingyuan Water Supply Co., Ltd. (昆明清源自來水有限責任公司, "**Kunming Qingyuan**")	Controlled by Kunming SASAC
Kunming Panasia Lakes Integrated Regulation Co., Ltd. (昆明泛亞湖泊綜合治理有限公司, "**Kunming Panasia**")	Controlled by KDI
Dianchi Jiajing	Associate of the Company
Kunming City Wastewater Treatment and Operation Co., Ltd. (昆明城市污水處理運營有限責任公司, "**City Operation**")	Subsidiary of the Company
Kunming Dianchi Water Treatment Occupation Training School (昆明滇池水處理職業培訓學校, "**Dianchi Training School**")	Subsidiary of the Company
Xundian Wastewater	Subsidiary of the Company
Yunnan Reclaimed Water Industry Co., Ltd. (雲南中水工業有限公司, "**Yunnan Reclaimed Water**")	Subsidiary of the Company

FOR THE YEAR ENDED 31 DECEMBER 2016

36 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Name and relationship with related parties *(Continued)*

Name of related party	Nature of relationship
Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司, "**Dianchi Logistics**")	Subsidiary of the Company
Fanchang Water	Subsidiary of the Company
Bafang Water	Subsidiary of the Company
He'ertai Environmental	Subsidiary of the Company
Shuangjiang Dianchi Water treatment Co., Ltd. (雙江滇池水務有限公司 "**Shuangjiang**")	Subsidiary of the Company

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the years ended 31 December 2016 and 2015, the Group had the following significant transactions with related parties.

(i) Prepayments made for purchase of property, plant and equipment, other than the Reorganisation:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**–**	450,000

(ii) Purchase of property, plant and equipment, other than the Reorganisation:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**448,884**	–
Xindu Investment	**–**	202,040
	448,884	202,040

36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(iii) Purchase of land use right, other than the reorganisation:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**67,984**	–
Xindu Investment	**31,000**	–
	98,984	–

(iv) Loans granted to related parties:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**67,902**	60,554
Dianchi Jiajing	**–**	–
Xindu Investment	**760**	–
	68,662	60,554

The transaction under finance arrangement between the Group and related parties are paid and settled by RMB, repayable on demand.

Interest was charged on certain loans granted to related parties at a rate of 8% and 10%.

36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(v) Loans repaid form related parties:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**67,902**	68,256
Xindu Investment	**–**	–
	67,902	68,256

(vi) Interest income from related parties:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**14,693**	–
Xindu Investment	**–**	16,644
Dianchi Jiajing	**–**	–
	14,693	16,644

(vii) Transportation services provided to related parties:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Kunming Panasia	**304**	568

FOR THE YEAR ENDED 31 DECEMBER 2016

36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(viii) Services provided to related parties:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**83,318**	66,156

(ix) Commission charged by related parties:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Kunming CGE	**6,531**	7,123
Kunming Qingyuan	**1,161**	–
	7,692	7,123

(c) Key management compensation

Key management includes directors (executive and non-executive), supervisors and executives. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**929**	1,270
Contributions to pension plans	**179**	161
Housing fund, medical insurance and other social insurance	**332**	275
	1,440	1,706

FOR THE YEAR ENDED 31 DECEMBER 2016

36 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties

(i) Trade and 0ther receivables due from related parties:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**30,677**	69,074
Xindu Investment	**24,232**	23,472
Kunming CGE	**18,295**	19,202
Kunming Qingyuan	**5,946**	–
	79,150	111,748

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

(ii) Trade and other payables due to related parties:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Acquisition of property plant and equipment:		
KDI	**13,729**	3,802
Xindu Investment	**16,040**	16,040
Acquisition of land use rights:		
KDI	**27,194**	–
Xindu Investment	**31,000**	–
Others:		
KDI	**19,039**	129,209
Kunming CGE	**1,664**	576
Kunming Qingyuan	**178**	–
	108,844	149,627

36 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties *(Continued)*

(iii) Advance from related parties for services to be provided:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**9,879**	–

Other payables are all non-trade payables and will be settled upon demand of these related parties.

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

(iv) Trade and other payables due to related parties:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**40,943**	113,217
He'ertai Environmental	**1,557**	–
Yunnan Reclaimed Water	**12**	–
Dianchi Logistics	**2,000**	2,000
City Operation	**8,600**	9,691
Xindu Investment	**47,040**	16,040
Kunming Qingyuan	**178**	–
Kunming CGE	**1,664**	576
	101,994	141,524

Other payables are all non-trade payables and will be settled upon demand of these related parties.

36 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties *(Continued)*

(v) Advance from related parties for services to be provided:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
KDI	**9,879**	–

37 SUBSIDIARIES

Particulars of the subsidiaries as at the date of this report and during the years ended 31 December 2016 and 2015 are set out below:

Company name	Country or place and date of incorporation	Issued and paid up capital or registered capital	Effective interests held by the Group % 31 December 2016	2015	Direct or Indirect	Principle activities
Yunnan Reclaimed Water	PRC, 28 March 2002	9,162	**100%**	100%	Direct	Reclaimed water supply
City Operation	PRC, 15 June 2005	5,640	**100%**	100%	Direct	Operation of wastewater treatment facilities
Dianchi Logistics	PRC, 15 June 2005	3,012	**100%**	100%	Direct	Logistics and leasing services
Dianchi Training School	PRC, 26 October 2012	282	**100%**	100%	Direct	Professional training services
Xundian Wastewater	PRC, 30 April 2009	24,200	**100%**	100%	Direct	Wastewater treatment
Shidian Water	PRC, 21 July 2014	23,300	**100%**	100%	Direct	Wastewater treatment
Kunming Haiyun Investment Co., Ltd. (昆明海韻投資有限公司, "**Haiyun Investment**")	PRC, 21 April 2013	–	**N/A**	N/A	Direct	Wastewater treatment

37 SUBSIDIARIES *(Continued)*

Company name	Country or place and date of incorporation	Issued and paid up capital or registered capital	Effective interests held by the Group % 31 December 2016	2015	Direct or Indirect	Principle activities
Yiliang Water	PRC, 4 June 2015	21,000	100%	100%	Direct	Wastewater treatment
Malong Water	PRC, 13 August 2015	62,059	100%	100%	Direct	Wastewater treatment and running water supply
Fanchang Water	PRC, 8 May 2014	39,800	100%	100%	Direct	Wastewater treatment
Zhuji Water	PRC, 30 November 2015	25,000	100%	100%	Direct	Wastewater treatment
Suijiang Water	PRC, 9 December 2015	22,000	100%	100%	Direct	Wastewater treatment
Ziyun Water	PRC, 12 January 2016	12,000	100%	N/A	Direct	Wastewater treatment
Bafang Water	PRC, 5 January 2011	10,000	100%	N/A	Direct	Wastewater treatment
He'ertai Environmental	PRC, 7 February 2002	10,000	51%	N/A	Direct	Manufacturing and sales of chemical products
Shuangjiang	PRC, 8 October 2016	10,000	100%	N/A	Direct	Running water supply
Dian Chi Water Treatment (LAOS) Sole Co., Ltd	LAOS, 22 August 2016	34,518	N/A	N/A	Direct	Wastewater treatment

All the subsidiaries are companies with limited liability.

The Company liquidated Haiyun Investment, a 60% owned subsidiary of the Company. The liquidation was completed on December 2015.

The English names of the PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

38 EVENTS AFTER THE BALANCE SHEET DATE

(a) Acquisition of subsidiaries

Save as disclosed below and elsewhere in the notes to the financial statements set out above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2016:

Pursuant to a resolution of Board of Directors of the Company dated 22 April 2016, the Group intended to acquire all the wastewater treatment business, which include 100% equity interests in Libao Water, 100% equity interests in Qutang Water and 100% equity interests in Hongze Water, all of which are directly or indirectly owned by Jiangsu Tianying Water Development Co., Ltd. (江蘇天楹水務發展有限公司,"**Jiangsu Tianying**"). The ultimate controlling shareholder of Jiangsu Tiangying is an individual.

The combined net asset of the above mentioned subsidiaries as at 31 December 2016 was RMB52,135,000, and the combined net profit amounted to RMB8,891,000 for the year ended 31 December 2016.

In January 2017, the Group completed the acquisition of the above mentioned three entities, and the full consideration of RMB79,950,000 was paid in December 2016 and recorded in "prepayment for acquisition of subsidiaries".

(b) Dividends distribution after the balance sheet date

In accordance with the resolution at the Board of Directors' meeting dated on 25 April 2017, the Board of Directors proposed a dividend in respect of the year ended 31 December 2016 of RMB102,857,200 to the shareholders. The subsequently proposed dividend is not recorded as liability in the financial statements for the year ended 31 December 2016.

39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Land use rights	**464,948**	380,389
Long term prepayments	**450,000**	863,950
Property, plant and equipment	**2,333,103**	1,939,242
Receivables under service concession arrangements	**125,469**	66,782
Amounts due from customers for construction contracts	**35,573**	28,485
Intangible assets	**25,211**	23,781
Investments in subsidiaries	**271,629**	208,008
Investments in associates	**17,939**	17,939
Prepayments for acquisition of subsidiaries	**79,950**	10,879
Deferred income tax assets	**15,355**	16,024
	3,819,177	3,555,479
Current assets		
Inventories	**4,203**	3,135
Amounts due from customers for construction contracts	**5,716**	6,104
Trade and other receivables	**322,752**	194,544
Term deposits with initial term of over three months	**–**	–
Cash and cash equivalents	**392,359**	1,071,003
	725,030	1,274,786
Total assets	**4,544,207**	4,830,265

FOR THE YEAR ENDED 31 DECEMBER 2016

39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
EQUITY			
Share capital		720,000	720,000
Other reserves	(a)	740,794	715,604
Retained earnings	(a)	1,050,844	824,024
Total equity		2,511,638	2,259,628
LIABILITIES			
Non-current liabilities			
Deferred revenue		107,066	110,556
Borrowings		741,995	1,170,639
		849,061	1,281,195
Current liabilities			
Trade and other payables		361,996	484,377
Current income tax liabilities		42,775	24,852
Borrowings		778,737	780,213
		1,183,508	1,289,442
Total liabilities		2,032,569	2,570,637
Total equity and liabilities		4,544,207	4,830,265
Net current liabilities		(458,478)	(14,656)
Total assets less current liabilities		3,360,699	3,540,823

FOR THE YEAR ENDED 31 DECEMBER 2016

39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

(a) Reserves movements of the Company

Company

	Retained Earning *RMB'000*	**Share premium** *RMB'000*	**Statutory reserve** *RMB'000*
At 1 January 2015	877,932	955,091	98,544
Profit for the year	220,061	–	–
Appropriation to statutory reserves	(21,969)	–	21,969
Dividends declared and paid to the Company's shareholders	(252,000)	–	–
Increase in share capital by capitalisation of share premium	–	(360,000)	–
At 31 December 2015	824,024	595,091	120,513
Profit for the year	**252,010**	**–**	**–**
Appropriation to statutory reserves	**(25,190)**	**–**	**25,190**
At 31 December 2016	**1,050,844**	**595,091**	**145,703**