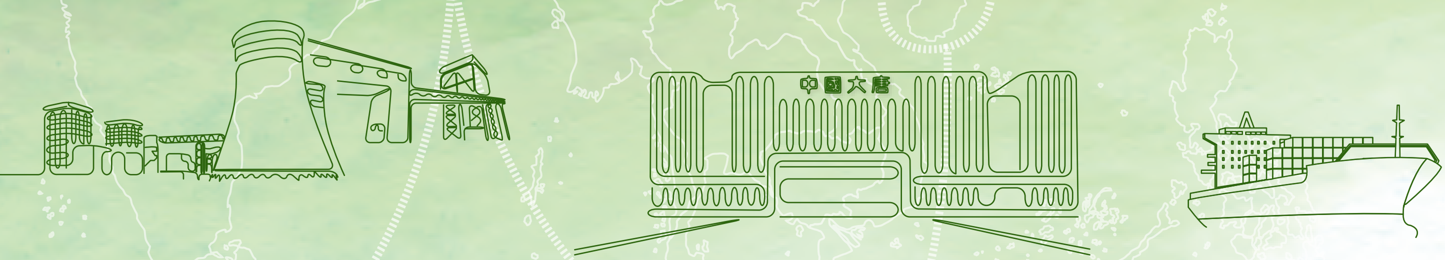
大唐環境產業集團股份有限公司

Datang Environment Industry Group Co., Ltd.*

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

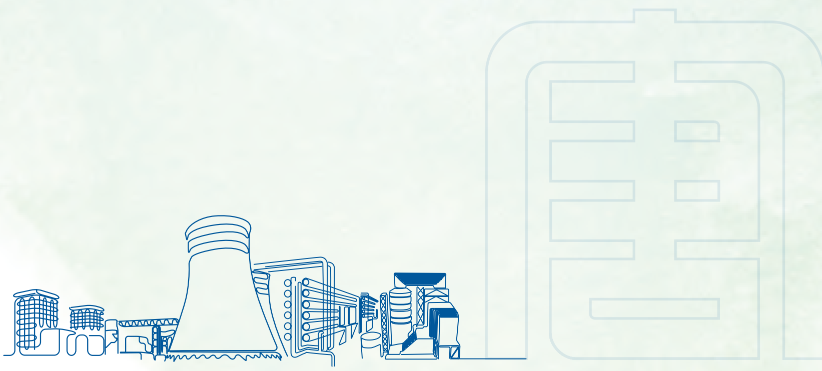
Stock Code: 1272

2016
ANNUAL REPORT



* For identification purpose only

Contents



Chairman's Statement

Chairman of the Board

JIN Yaohua

Dear Shareholders,

The year of 2016 was an extremely meaningful and splendid year for the development of the Company. Under the spirits of both the overall layout of "Five in One" strategy and five development concepts initiated by the PRC government, the Company proactively devoted into ecological civilization construction and thoroughly implemented the state-owned enterprises reformation deployment to conform with the new epoch of innovative and green development. By capturing the opportunity brought along with the PRC government's measures on forging the energy conservation and environmental protection industry into an emerging backbone industry of the national economy, the Company finally succeeded in tapping into the capital markets in Hong Kong over years of efforts and turned on a brand new chapter for its future development.

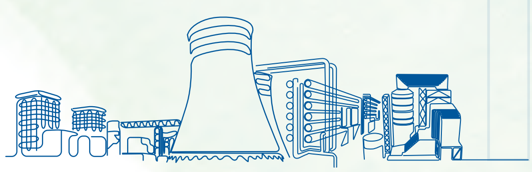
Over the year of 2016, energy conservation and environmental protection enterprises were experiencing an enormous change in industry trend while the PRC's new normal characteristics were getting increasingly apparent as well as the supply-side structural reform and electric power system reform were further deepening. Encountering the sophisticated development trend and strategic opportunities, the Board persisted in the core philosophy of "Value Thinking and Profit Orientation" and focused its strengths in upgrading technology level and innovation capability, increasing domestic and overseas market shares and also its industrial influence over the energy conservation and environmental protection industry, improving professional management, and enhancing control capabilities of the Company as well as employees' comprehensive capabilities, all of which further boosted the profitability and core competitiveness of the Company and fostered a favorable complexion for the Company's sound and healthy development.

Looking forward, adhering to an internationalized, marketized, informationized and value-oriented development under dual dynamics of innovation and reformation, the Company will continue to utilize the platform and resources provided by China Datang, its Controlling Shareholder, to strengthen and optimize its core company, core technology, core talents, core products, core resources and core markets so as to fully increase the Company's core competitiveness and sustainability and finally, become a well-recognized provider of a basket of product and service solutions in the energy conservation and environmental protection industry worldwide. Furthermore, the Company will endeavor to grow into a domestic top-grade and internationally renowned energy conservation and environmental protection group, to reward the Shareholders and society with considerable return, and to make greater contribution in creating a beautiful and ecological China!

Last but not least, on behalf of the Board, I hereby express my sincere gratitude to all the trust and support from the Shareholders, business partners and friends from the society!

Chairman of the Board
JIN Yaohua

24 March 2017



Message From the General Manager

General Manager
DENG Xiandong

Dear Shareholders,

In 2016, with the tremendous support of all Shareholders, the precise strategy of the Board, the management and staff of the Company cohered to overwhelm every obstacle, firmly adhered to its core philosophy of "Value Thinking and Profit Orientation", endeavoured in increasing its market share and industrial influence, accelerating the pace of optimized development and system and mechanism innovation, enhancing the improvement of professional technology and personnel capability and, fighting positively against the rigorous market challenges while driven by dual energy of technology and innovation. Base on all these endeavors, the Company conquered various difficulties, for instance, the reduction of utilization hours of thermal power equipment and the upsurge of engineering projects, and realized a favorable momentum for a sound, healthy and sustainable development. The Company realized a yearly profit before tax of RMB1.265 billion and profit for the year of RMB1.085 billion in 2016, rising 41.67% and 44.57% respectively as compared with that of the corresponding period, which signified an auspicious start of the "13th Five-Year Plan".

In 2016, the Company enhanced the exploration of emerging markets. Environmental protection section of the Company was consolidated and further expanded to the environmental protection market of petrochemical system. Water treatment department of the Company won the bid for the EP project of the water treatment island in Sheng Long, Vietnam and made breakthroughs in municipal sewage treatment. Regarding international markets, the Company undertook and successfully delivered the PP9 project in Thailand and the No. 1 generation unit desulfurization system of desulfurization EPC project in Cuddalore, India. In addition, the Company won or expected to win a series of projects in Kazakhstan, Thailand, India and other countries and had established a profound cooperation relationship with a number of Indian energy enterprises.

In 2016, the Company emphasized the promotion of clean, green and efficient energy utilization, positively performing its corporate mission and social responsibility. Regarding operation business, franchised operation division of the Company enhanced the professional management capability and its devices fully satisfied the desulfurization and denitrification emission standards with a yearly recorded emission reduction of 724,600 tons of sulfur dioxide (SO_2) and 97,800 tons of nitrogen oxide (No_x) in 2016. Regarding engineering construction and manufacturing aspects, the Company completed 51 generation units of ultra-low emission refurbishment with an installed capacity of 34,840MW and 6 fresh generation units of environmental protection facility construction with an installed capacity of 3,600MW. And the Company's manufacturing and sale of denitrification catalysts reached 32,000m^3. All these made remarkable contributions to the establishment of a beautiful and ecological China.

In 2016, the Company focused on the enhancement of team building and improvement of employees' comprehensive capability. In the final round of the National Desulfurization and Denitrification Processing Contest in Power Industry, eight employees of the Company outperformed other contestants, and stood out from the crowd in skill competition participated in by outstanding desulfurization and denitrification operation personnel from the first-class enterprises in China's power industry, including China Huaneng Group, China Huadian Corporation and China Guodian Corporation. Our employees obtained the champion, the first runner-up, the fourth place, the fifth place, the seventh place, the eighth place, the ninth place and the twelfth place in individual competition, and won the first three places in team competition. Not only did all of our participants win the title of "Technical Expert in Power Industry", we also obtained the only qualification for recommendation of "National May Day Medal" in national desulfurization and denitrification processing professions, chalking up a new record of a national level industrial skill competition, which demonstrated the Company's powerful strengths in operation, maintenance and management of concession operation of environmental protection facilities.

In 2016, the Company reinforced technology innovation and talents cultivating. It honorably introduced Professor Hao Jiming, academician of Chinese Academy of Engineering and dean of Environmental Science and Engineering Department of Tsinghua University, to its academician and expert workstation. The Company acquired 21 invention patents during 2016, among which, two invention patents that were developed through independent research had been recognized by national authorities and seven invention patents with intellectual property rights had been granted technology awards at national, provincial and industrial levels.

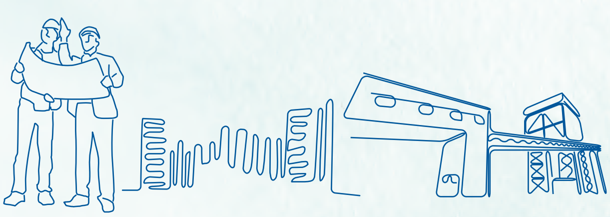
In 2016, the Company focused on increasing its industrial influence and safeguarding the healthy development of the industry through completing the compilation of a series of industrial guidelines, including the *Contract Sample on Third-party Treatment of Desulfurization and Denitrification for Coal-fired Plant* 《燃煤電廠脱硫脱硝第三方治理合同範本》, the *Guidance on Assessment on Operation and Management of Third-party Treatment for Coal-fired Plant* 《燃煤電廠第三方治理運營管理評價導則》 and the *Negative List System for Third-party Treatment of Environment Pollution for Coal-fired Plant* 《燃煤電廠環境污染第三方治理負面清單制度》.

In 2017, the government will provide tremendous support for the development of energy conservation and environmental protection industry. Along with the policies and measures consecutively taking effect to strengthen the clean and high utilization of coal, the widespread engagement in EMC and the third-party treatment of environment pollution and also the acceleration, expansion and flexibility improvement of energy conservation refurbishment of coal-fired generation units, the Company will encounter extraordinary opportunities. Under the national strategy of the *Belt and Road Initiative*, the internationalization of power industry will accordingly expedite. The Company will adhere to the philosophy of "Value Thinking and Profit Orientation", further deepen reformation, encourage innovation, optimize mechanism and forge "six core elements" (namely core company, core technology, core talents, core products, core resources and core markets) and adhere to an internationalized, marketized, informationalized and value-oriented development so as to enhance the core competitiveness and confirmedly "go out", under which the Company will achieve positive, healthy and sustainable development and grow into a domestic top-grade and internationally renowned company in energy conservation and environmental protection.

We hereby express our sincere gratitude to the strong support of all Shareholders and friends from the society. Under the leadership of the Board and the support of China Datang, our Controlling Shareholder, we are confident and determined to bring better rewards to all Shareholders.

General Manager
DENG Xiandong

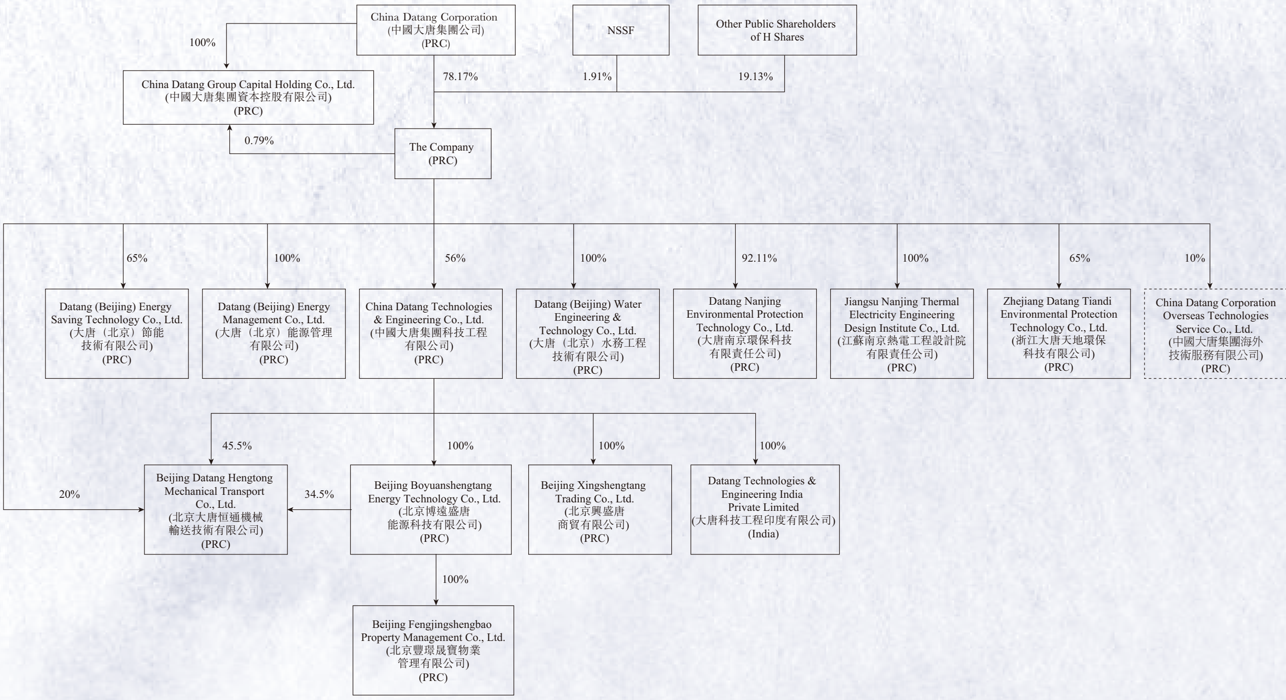
24 March 2017

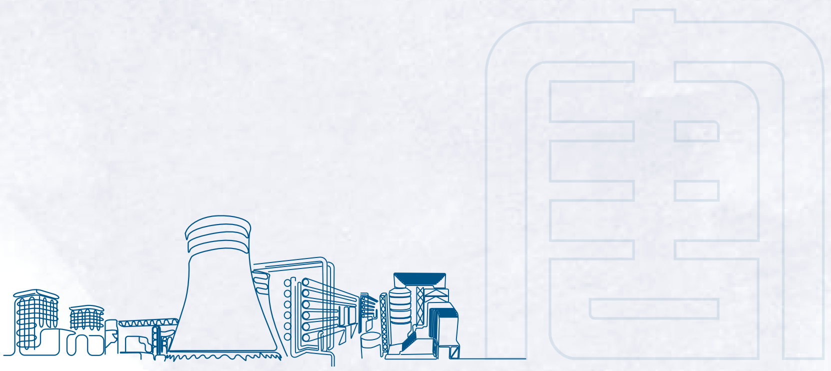


The predecessor of the Company (stock code: 1272) was China Datang Group Environment Technology Co., Ltd. (中國大唐集團環境技術有限公司), which was established in July 2011. Since the establishment of the Company and after several years of rapid development and a series of business restructuring, the Company has been successfully listed on the Main Board of the Stock Exchange since 15 November 2016. As at 31 December 2016, the Company had a total of 2,967,542,000 issued Shares, among which the Controlling Shareholder, China Datang, holds, directly and indirectly, an aggregate of approximately 78.96%.

The Group is the sole platform for the development of environmental protection and energy conservation business under China Datang Group, one of the five major state wholly-owned power generation groups in the PRC. The principal business of the Group includes environmental protection facility concession operation, denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy engineering business.

As at 31 December 2016, the Company's major corporate structure was as follows:





Financial and Operation Highlights

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

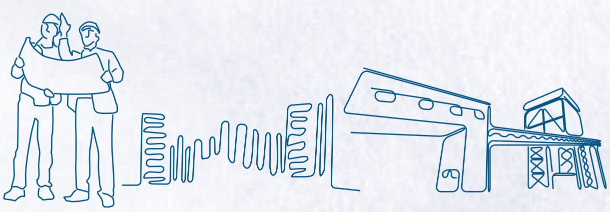
- For the year ended 31 December 2016, the gross profit of the Group amounted to RMB1,673.3 million and the gross profit margin of the Group amounted to 20.5%, representing an increase of 21.2% and 4.5 percentage points as compared with last year, respectively.

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

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

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

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



Financial Highlights

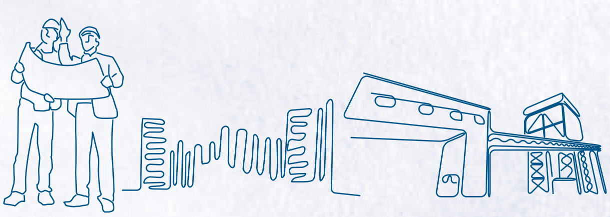
The following table sets forth the Company's consolidated statements of profit or loss and other comprehensive income for the periods indicated:

	Year ended 31 December			
	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CONTINUING OPERATIONS				
Revenue	**8,156,469**	8,609,588	6,499,127	5,687,970
Cost of sales	**(6,483,157)**	(7,229,534)	(5,436,681)	(4,695,866)
Gross profit	**1,673,312**	1,380,054	1,062,446	992,104
Selling and distribution expenses	**(47,018)**	(38,252)	(38,101)	(29,130)
Administrative expenses	**(282,051)**	(289,947)	(235,769)	(194,870)
Other income and gains	**113,745**	71,013	15,928	4,015
Finance costs	**(193,065)**	(230,022)	(208,545)	(179,458)
Profit before tax from continuing operations	**1,264,923**	892,846	595,959	592,661
Income tax expenses	**(180,193)**	(142,537)	(101,154)	(96,220)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**1,084,730**	750,309	494,805	496,441
DISCONTINUED OPERATION				
Profit/(loss) for the year from a discontinued operation(1)	**–**	–	42,670	(450,980)
PROFIT FOR THE YEAR	**1,084,730**	750,309	537,475	45,461

	Year ended 31 December			
	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**2,104**	(23)	2,182	(23,957)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,086,834**	750,286	539,657	21,504
Profit attributable to:				
Owners of the parent	**1,020,564**	705,753	535,210	176,958
Non-controlling interests	**64,166**	44,556	2,265	(131,497)
	1,084,730	750,309	537,475	45,461
Total comprehensive income attributable to:				
Owners of the parent	**1,021,657**	705,741	536,738	160,188
Non-controlling interests	**65,177**	44,545	2,919	(138,684)
	1,086,834	750,286	539,657	21,504

Note:

(1) The profit/loss from discontinued operation represents the operating results of China Creative Wind Energy Co., Ltd..



The following table sets forth selected items from our consolidated statements of financial position as at the dates indicated:

	31 December			
	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Total current assets	**11,016,628**	7,893,164	7,019,115	8,142,807
Total non-current assets	**6,918,912**	6,085,663	3,326,049	4,086,913
Total assets	**17,935,540**	13,978,827	10,345,164	12,229,720
LIABILITIES AND EQUITY				
Total current liabilities	**8,022,970**	6,962,036	6,365,489	8,033,095
Total non-current liabilities	**3,497,216**	3,389,720	2,292,440	2,878,291
Total equity	**6,415,354**	3,627,071	1,687,235	1,318,334
Total liabilities and equity	**17,935,540**	13,978,827	10,345,164	12,229,720

The following table sets forth a summary of our consolidated statements of cash flows for the periods indicated:

	Year ended 31 December			
	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash flows from operating activities	**1,303,594**	1,266,530	944,421	742,978
Net cash flows used in investing activities	**(1,575,855)**	(2,804,435)	(869,264)	(678,336)
Net cash flows from financing activities	**1,812,562**	1,907,341	289,227	178,934

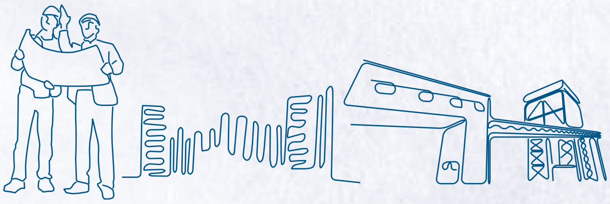
Management Discussion and Analysis

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

I. INDUSTRY OVERVIEW

The amended *Law of Prevention and Control of Air Pollution* (《大氣污染防治法》) was implemented nationwide in January 2016, aiming to strengthen the comprehensive prevention and control of air pollutants from various sources including coal-burning, and impose synergistic control over dust, So_2, No_x and other atmospheric pollutants. In addition, it will further promote the production and utilization of clean energy. In July 2016, the PRC governments launched the *13th Five-Year Plan of Energy Development* (《能源發展「十三五」規劃》), which proposed the thorough implementation of the ultra-low emission and energy conservation refurbishments for coal-fired power generation units and encouraged the application of clean and efficient coal-fired power technology. The PRC governments further promulgated the *13th Five-Year Plan of Development of Energy Conservation and Environmental Protection Industries* (《「十三五」節能環保產業發展規劃》) and the *13th Five-Year Comprehensive Action Plan for Energy Conservation and Emission Reduction* (《「十三五」節能減排綜合工作方案》) in December 2016, targeting the strict enforcement of the energy efficiency and environmental protection standards and the reinforcement of the monitoring of pollutant emission by power plants. The energy conservation and environmental protection industry is expected to grow rapidly and become one of the largest backbone industries for the development of China's economy by 2020.

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



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

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

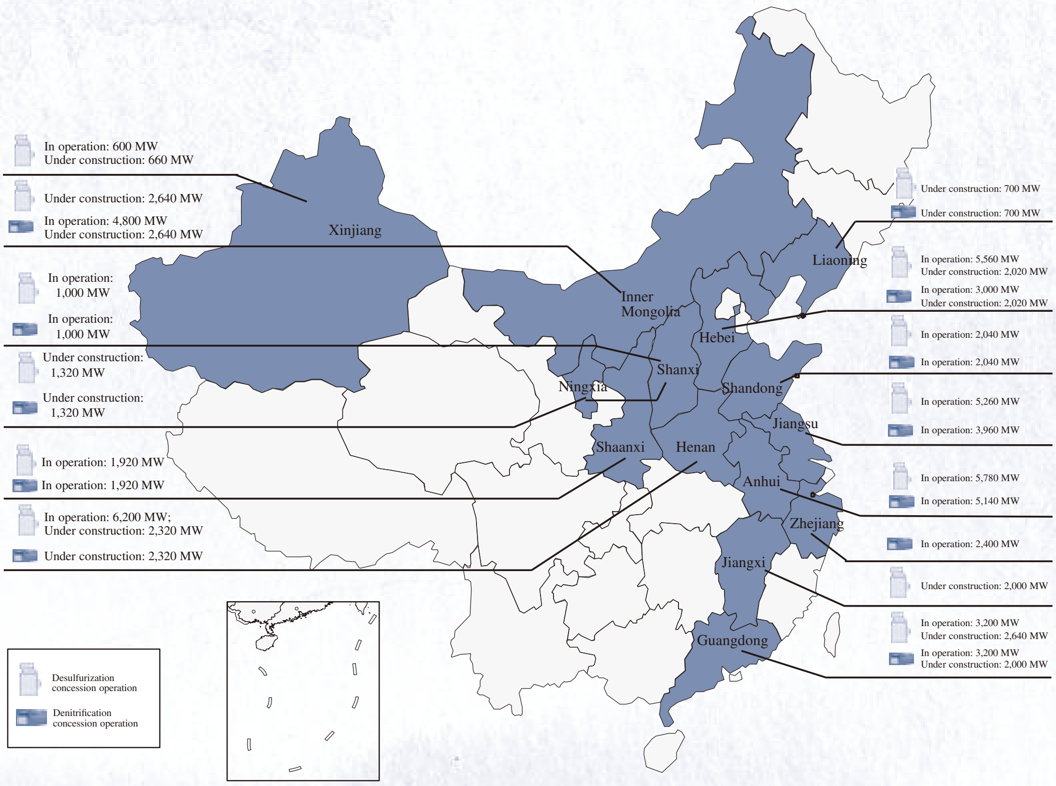
According to the Frost & Sullivan Report, as the awareness of energy conservation and environmental protection increases, the EMC market achieved remarkable development and recorded a total contract amount of approximately RMB3.5 billion for the entire market in 2016. The EMC market is expected to maintain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

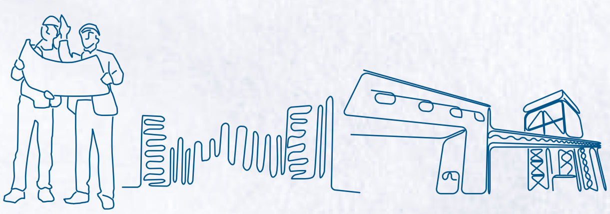
II. BUSINESS OVERVIEW

1. Environmental Protection and Energy Conservation Solution Business

1.1. Environmental protection facility concession operation business

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

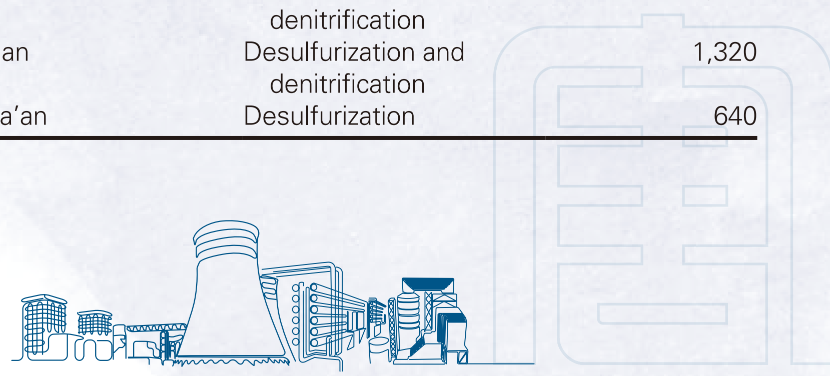




By 31 December 2016, the cumulative installed capacity in operation for desulfurization concession operations of the Group reached 33,560 MW and the cumulative installed capacity for desulfurization concession operation projects under construction reached 11,660 MW. The cumulative installed capacity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

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

Project location	Project name	Category of concession operation	Installed capacity *(MW)*
Guangdong	Chaozhou	Desulfurization and denitrification	3,200
Jiangsu	Lvsigang	Desulfurization and denitrification	2,640
	Nanjing	Desulfurization and denitrification	1,320
	Xutang	Desulfurization	1,300
Shandong	Huangdao	Desulfurization and denitrification	1,340
	Binzhou	Desulfurization and denitrification	700
Zhejiang	Wushashan	Denitrification	2,400
Henan	Xuchang	Desulfurization	2,020
	Sanmenxia	Desulfurization	1,900
	Anyang	Desulfurization	1,240
	Shouyangshan	Desulfurization	1,040
Hebei	Wangtan	Desulfurization and denitrification	1,200
	Zhangjiakou Thermal	Desulfurization and denitrification	600
	Jixian	Desulfurization and denitrification	1,200
	Zhangjiakou	Desulfurization	2,560
Anhui	Luohe	Desulfurization and denitrification	2,500
	Ma'anshan	Desulfurization and denitrification	1,320
	Hushan	Desulfurization and denitrification	1,320
	Tianjia'an	Desulfurization	640



Project location	Project name	Category of concession operation	Installed capacity *(MW)*
Shaanxi	Binchang	Desulfurization and denitrification	1,260
	Baoji	Desulfurization and denitrification	660
Inner Mongolia	Tuoketuo	Denitrification	4,800
Jiangxi	Fuzhou	Desulfurization	2,000
Shanxi	Shentou	Desulfurization and denitrification	1,000
Xinjiang	Hutubi	Desulfurization	600

Projects under construction

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

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

1.2. *Denitrification catalysts business*

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

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

(Unit: m^3)

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

1.3. *Environmental protection facilities engineering business*

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

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

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

1.4. *Water treatment business*

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

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

1.5. *Energy conservation business*

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

2. Renewable Energy Business

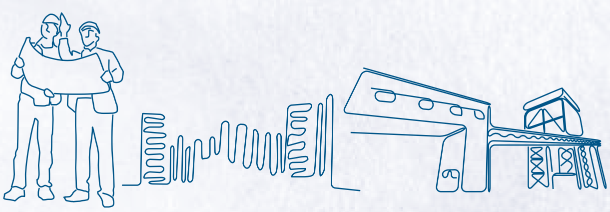
In 2016, the Group completed seven wind power plants engineering projects in total, with a cumulative installed capacity in operation and a cumulative contracted capacity of 1,615.8 MW and 1,962.1 MW, respectively. In 2016, the Group completed two photovoltaic power plant engineering projects in total,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

3. Thermal Power Plants Engineering General Contracting Business

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

4. Other Businesses

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



5. Overseas Business

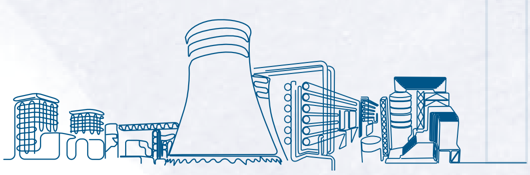
In 2016, the Group vigorously explored the overseas markets, seizing the opportunities brought by the policy of *Belt and Road Initiative*, and expanded its business to five countries overseas, covering various business including desulfurization EPC, water treatment EP, renewable energy EPC and dry slag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

6. Research and Development

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

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

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



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

The following discussion should be read in conjunction with the financial information of the Group together with the accompanying notes included in this annual report and other sections therein.

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

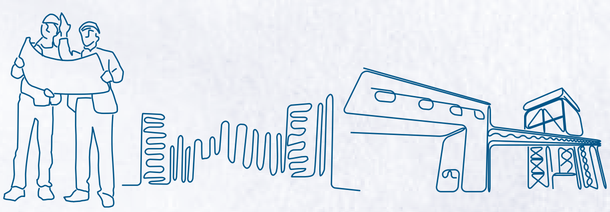
1. Overview

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

2. Results of Operations

2.1. Revenue

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



2.2. Cost of sales

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

2.3. Selling and distribution expenses

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

2.4. Administrative expenses

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

2.5. Other income and gains

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

2.6. Finance costs

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

2.7. Profit before tax

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

2.8. Income tax expense

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

2.9. Profit for the year

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

2.10. Profit attributable to the owners of the parent

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

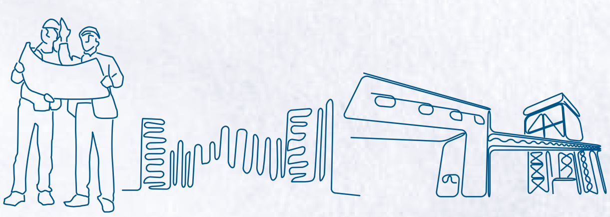
2.11. Profit attributable to non-controlling interests

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

3. Results on Business Segments

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

	Year ended 31 December				
	2016		2015		
	Revenue *RMB'000*	**Percentage of total revenue before elimination[(1)]** %	Revenue *RMB'000*	Percentage of total revenue before elimination[(1)] %	Change %
Environmental Protection and Energy Conservation Solutions:					
Environmental protection facilities concession operation	**2,478,340**	**29.9**	1,881,644	21.4	31.7
Denitrification catalysts	**505,096**	**6.1**	506,051	5.8	(0.2)
Environmental protection facilities engineering	**2,802,300**	**33.8**	2,935,481	33.5	(4.5)
Water treatment business	**275,064**	**3.3**	191,790	2.2	43.4
Energy conservation business	**63,249**	**0.8**	79,956	0.9	(20.9)
Total revenue of environmental protection and energy conservation solutions before elimination	**6,124,049**	**73.9**	5,594,923	63.8	9.5
Intra-segment elimination[(2)]	**(70,841)**		(129,376)		



	Year ended 31 December				
	2016		2015		
	Revenue *RMB'000*	**Percentage of total revenue before elimination[1]** %	Revenue *RMB'000*	Percentage of total revenue before elimination[1] %	Change %
Total revenue of environmental protection and energy conservation solutions after intra-segment elimination	**6,053,208**		5,465,547		10.8
Inter-segment elimination[3]	**(44,216)**		(11,734)		
External revenue of environmental protection and energy conservation solutions	**6,008,992**		5,453,813		10.2
Renewable Energy Engineering:					
Total revenue of renewable energy engineering business	**1,919,564**	**23.2**	2,674,166	30.5	(28.2)
Inter-segment elimination	**–**		–		
External revenue of renewable energy engineering business	**1,919,564**		2,674,166		(28.2)
Thermal power plants engineering general contracting:					
Total revenue of thermal power plants engineering general contracting	**–**	**–**	152,973	1.7	(100.0)
Inter-segment elimination[4]	**–**		(5,435)		
External revenue of thermal power plants engineering general contracting	**–**		147,538		(100.0)
Other businesses:					
Total revenue of other businesses	**241,941**	**2.9**	351,686	4.0	(31.2)
Inter-segment elimination[5]	**(14,028)**		(17,615)		
External revenue of other businesses	**227,913**		334,071		(31.8)
Total revenue before elimination[6]	**8,285,554**	**100.0**	8,773,748	100.0	(5.6)
Total intra- and inter-segment elimination[7]	**(129,085)**		(164,160)		
Total revenue	**8,156,469**		8,609,588		(5.3)

Notes:

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

4. Cash Flow

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

5. Working Capital

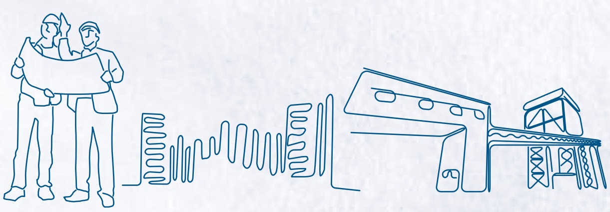
As at 31 December 2016, the Group's net current assets increased by 221.5% to RMB2,993.7 million as compared with RMB931.1 million as at 31 December 2015, primarily due to (i) an increase of 28.1% in the Group's trade and bills receivables to RMB6,375.7 million as at 31 December 2016 as compared with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

6. Indebtedness

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

7. Capital Expenditure

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



8. Financial Ratios

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

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

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

9. Significant Investment

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

10. Material Acquisition and Disposal

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

11. Contingent Liabilities

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

IV. RISK FACTORS AND RISK MANAGEMENT

Risks on environmental protection and energy conservation policies

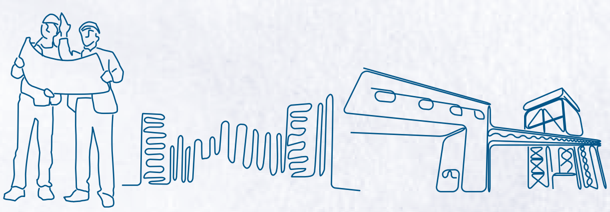
The Group provides substantially all of its products and services in the PRC, and the development of its business is greatly dependent on the environmental protection policies of the PRC. Environmental protection industry is one of the major industries that benefit from the constant support of the PRC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

Risks on connected transactions with China Datang Group

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

Liquidity risks

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



Industry risks

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

Risks on overseas business

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

V. OUTLOOK ON THE GROUP'S FUTURE DEVELOPMENT

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

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

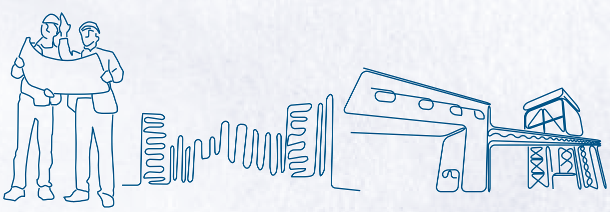
Challenges will also present. On one hand, if the utilization hours of coal-fired power generation units continue to decrease, the profitability of the Group's concession operation may be adversely affected. On the other hand, if the price of coal continues to maintain at a high level, it will hinder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

Main Tasks in 2017

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

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

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



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

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

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

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

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

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

Major Events in 2016

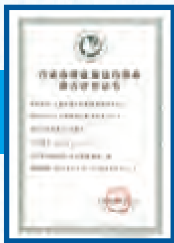
03

On 1 March 2016, the Company was awarded China Power Technology Award Third Prize (中國電力科學技術三等獎) for its project "Set Technology for Thermal Power Plant Flue Gas Denitrification with Proprietary Intellectual Property Rights".

04

On 29 April 2016, the 2015 annual general meeting of the Company was held in Beijing at which Mr. Liu Guangming and Mr. Liang Yongpan were elected as non-executive Directors, and Mr. Gao Jiaxiang was elected as an independent non-executive Director.

06

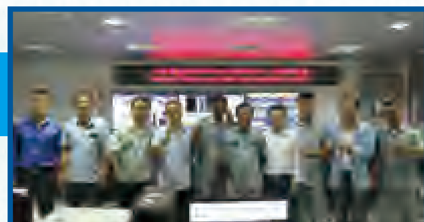


On 22 June 2016, the Company obtained the Certificate of Assessment on "Service Capability of Environment Pollution Treatment Facility Operation".

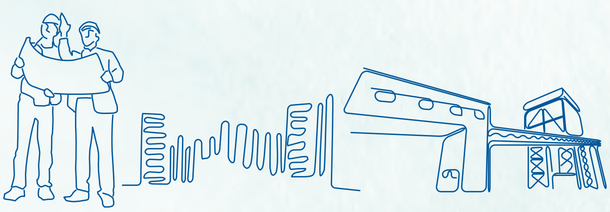
07

On 1 July 2016, the proprietary "Energy-saving Turbulence Pipe Gate High-efficient Desulfurization Technology" of the Company was assessed to be of international leading level by the Chinese Society for Electrical Engineering.

On 8 July 2016, Datang (Beijing) Energy Management Co., Ltd. (大唐(北京)能源管理有限公司), a subsidiary of the Company, obtained the China Power Equipment Maintenance Enterprise Qualification Certificate (Class I).



On 14 July 2016, the general contracting of the generating units under the NPP91×135MW project in Thailand of the Company passed trial operation of consecutive 168 hours.



07

On 16 July 2016, the engineering general contracting of ITPCL Desulfurization Engineering of Generating Unit No. 1 of the Company in Cuddalore, India has been successfully put into operation.

10

On 23 October 2016, the Company was awarded 2016 China Machinery Industry Science and Technology Award First Prize (2016年度中國機械工業科學技術一等獎) for its project "Research and Application of Key Technology of Core Environmental Protection Equipment for Coal-fired Power Plants".

11

On 15 November 2016, the Company was successfully listed on the Main Board of the Stock Exchange, strengthening its energy conservation and environmental protection business.

On 17 November 2016, the Company achieved excellent performance at The 2016 National Skills Competition – The 10th National Occupational Skills Competition of Electric Power Industry (Desulfurization and Denitrification Processing).

Report of Directors

The Board hereby presents this report of Directors and the annual report as well as the Group's audited consolidated financial statements for the year of 2016 prepared in accordance with the International Financial Reporting Standards ("**IFRSs**").

I. CORPORATE INFORMATION AND INITIAL PUBLIC OFFERING

The Company was incorporated as a joint stock Company in the PRC with limited liability on 25 July 2011. The H Shares have been listed on the Main Board of the Stock Exchange since 15 November 2016.

Basic information about the Company is set out in the sections headed "Company Profile" and "Corporate Information" on page 7 and pages 187 to 188 of this annual report.

II. PRINCIPAL BUSINESS

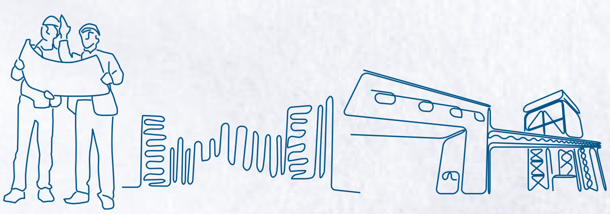
The Group is the sole platform for the development of environmental protection and energy conservation business under China Datang Group, one of the five major state wholly-owned power generation groups in the PRC. The principal business of the Group includes environmental protection facility concession operation, denitrification catalysts, environmental protection facilities engineering, water treatment business, energy conservation business and renewable energy engineering business.

Details of the Company's subsidiaries are set out in Note 1 to the financial statements in this annual report.

III. RESULTS AND BUSINESS REVIEW

The audited financial results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 102 of this annual report. The financial position of the Group and of the Company as at 31 December 2016 is set out in the consolidated statement of financial position on pages 103 to 104 of and in Note 37 to the financial statements in this annual report. The cash flows of the Group for the year ended 31 December 2016 are set out in the consolidated statement of cash flows on pages 106 to 107 of this annual report.

A discussion and analysis of the Group's business review, results and performance during the year ended 31 December 2016, the discussion and analysis of the key factors of its results and financial performance, risk factors and risk management and the prospect for future development are set out in the section headed "Management Discussion and Analysis" on pages 12 to 31 of this annual report, and the report of Directors on pages 34 to 59 of this annual report. The description of relationship between the Group and employees is set out in the section headed "Human Resources" on pages 95 to 96 of this annual report. The indemnity provisions of the Company are set out in the section headed "Directors' liability insurance and the permitted indemnity provisions" under the Corporate Governance Report on page 66 of this annual report. The aforementioned sections form part of the report of Directors.



IV. ENVIRONMENTAL POLICIES AND PERFORMANCE OF THE COMPANY

As an environmental protection technology company, the Company strictly abides by the impactful laws and regulations relating to its business, including provision of services of environment protection and energy conservation, inspection of the pollutants generated by coal-fired power plants, and provision of regenerating energies, etc. Meanwhile, as an environmental protection technology company, the Company has a deeper understanding of environmental and social responsibilities in 2016. The Company conducts business by taking fulfillment of social responsibilities and goals of sustainable development as our duty. The achievements of the Company are based on constructing the mutual beneficial relations with our clients and employees and maintaining coexistence with ecological and social environment. The Company will keep on undertaking social responsibilities and exerting advantages as an environmental protection enterprise and making consistent efforts to forage an environment with skies of blue and clouds of white.

Details of the environment, social responsibilities and governance of the Company will be set out in the Environmental, Social Responsibilities and Governance Report ("**ESG Report**") to be issued by the Company separately pursuant to Rule 13.91 and Appendix 27 to the Listing Rules.

V. COMPLIANCE WITH LAWS AND REGULATIONS

As an H share company incorporated in the PRC with limited liabilities and listed on the Main Board of the Stock Exchange, the Company is governed by various applicable domestic laws and regulations including the Company Law of the People's Republic of China ("**Company Law**"), the Production Safety Law of the People's Republic of China, the Standards for Corporate Governance of Listed Companies (《上市公司治理準則》) promulgated by the CSRC, the Guideline on Comprehensive Risk Management of Central Enterprises (《中央企業全面風險管理指引》) promulgated by the SASAC, as well as the Listing Rules and the SFO. The Group has implemented risk management and internal control measures to ensure its compliance with such laws and regulations. Having reviewed the business performance of the Group, the Board is of the view that the Group has been in compliance with the requirements of relevant laws and regulations in all material respects.

The discussion and analysis of legal risks exposed to the Company are set out in the section headed "Risk Factors and Risk Management" on pages 28 to 29 of this annual report.

VI. ISSUE OF SHARES

The H Shares have been listed and traded on the Main Board of the Stock Exchange since 15 November 2016. The Prospectus in connection with the listing has been published on the website of the Stock Exchange (**www.hkexnews.hk**) and the website of the Company (**www.dteg.com.cn**).

1. Initial Public Offering

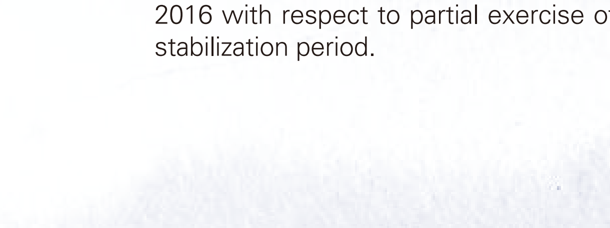
On 15 November 2016, the Company issued 540,000,000 H Shares at an offering price of HK$3.78 per H Shares (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and the Stock Exchange fee of 0.005%) for its initial public offering. Details of the global offering are disclosed in the Prospectus and the announcement of the Company dated 14 November 2016 with respect to the allotment results.

2. Partial Exercise of Over-allotment Option

On 8 December 2016, the over-allotment option described in the Prospectus (the "**Over-allotment Option**") was partially exercised by the joint global coordinators of the Company (on behalf of the international underwriters), in respect of an aggregate of 27,542,000 H Shares (the "**Over-allotment Shares**") (representing approximately 5.10% of the total number of the offer Shares initially available under the global offering), to cover, among other things, the over-allotment under the international offering. The Over-allotment Shares were issued and allotted by the Company at HK$3.78 per H Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%), being the offering price per offer Share under the global offering. For details of the partial exercise of the Over-allotment Option, please refer to the announcement of the Company dated 9 December 2016 with respect to partial exercise of the Over-allotment Option, stabilizing actions and end of stabilization period.

3. Stabilization Actions and End of Stabilization Period

The stabilization period in connection with the global offering ended on 8 December 2016. CLSA Limited acted as the stabilization manager for the Company. For details of the partial exercise of the Over-allotment Option, please refer to the announcement of the Company dated 9 December 2016 with respect to partial exercise of the Over-allotment Option, stabilizing actions and end of stabilization period.



VII. USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company has been listed on the Main Board of the Stock Exchange since 15 November 2016. The net proceeds from the initial public offering and partial exercise of the Over-allotment Option, after deducting the underwriting fees and relevant expenses, amounted to approximately HK$2,032.3 million, which will be used in the ways stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

As at the end of the Reporting Period, all of the Company's aforementioned proceeds remains unused and has been deposited in the special account maintained by the Company with the bank, because the projects related to the use of proceeds have not started.

VIII. PROPERTY, PLANT AND EQUIPMENT

Details of the changes in property, plant and equipment of the Group and of the Company are set out in Note 13 to the financial statements in this annual report.

At the end of the Reporting Period, the Group had no investment properties or properties held for development and/or sale with one or more of the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) exceeding 5%.

IX. SHARE CAPITAL

As at 31 December 2016, the total registered share capital of the Company was RMB2,967,542,000, divided into 624,296,200 H Shares and 2,343,245,800 Domestic Shares. Details of the changes in registered share capital of the Company during the Reporting Period are set out in Note 26 to the financial statements in this annual report.

X. PRE-EMPTIVE RIGHTS

As at 31 December 2016, there were no provisions for pre-emptive rights under the Articles of Association or the relevant PRC laws, which require the Company to offer new Shares to existing Shareholders in proportion to their shareholdings.

XI. RESERVES

Details of the changes in reserves of the Group and of the Company during the Reporting Period are set out in the consolidated statement of changes in equity and in Note 27 to the financial statements in this annual report.

XII. RETAINED PROFITS

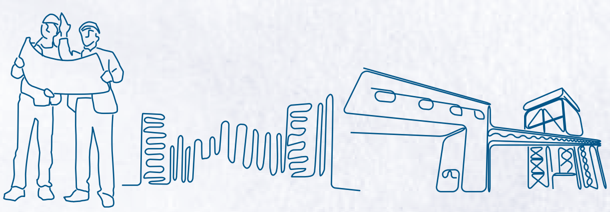
Pursuant to the Articles of Association, where there are differences between Accounting Standards for Business Enterprises of the PRC ("**PRC GAAP**") and the IFRSs, the retained profits shall be the lower of the amounts shown in the two different financial statements. As at 31 December 2016, the retained profits of the Group were approximately RMB1,792.4 million (31 December 2015: approximately RMB961.8 million) according to the Company's financial statements prepared in accordance with PRC GAAP.

The Board proposes to set aside 10% of the profit after tax as the statuary surplus reserve in accordance with the Company Law and the Articles of Association, and not to set aside discretionary reserve. This proposal will be submitted to the 2016 AGM for consideration and approval.

XIII. DIVIDENDS

1. Special Dividend

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



2. Proposed 2016 Final Dividend

According to the resolutions of the Board passed at the 17th meeting of the first session of the Board on 24 March 2017, the Board proposed to distribute the final dividend for the period from 1 April 2016 to 31 December 2016 of RMB0.125 per Share (before tax) (the "**Proposed 2016 Final Dividend**") in cash to the Shareholders. If the proposal is approved by the Shareholders at the 2016 AGM to be held on 30 June 2017, the Proposed 2016 Final Dividend is expected to be distributed on or before 23 August 2017 to the Shareholders whose names appear on the register of members of the Company on 11 July 2017. The Proposed 2016 Final Dividend to be distributed will be denominated and announced in RMB, of which dividends on Domestic Shares will be paid in RMB whereas dividends on H Shares will be paid in Hong Kong dollars (the exchange rate of RMB to Hong Kong dollars will be exchanged at the average exchange rate as announced by the People's Bank of China for a week prior to the date of the 2016 AGM).

XIV. CLOSURE OF REGISTER OF MEMBERS

1. 2016 AGM

The 2016 AGM will be convened at 2:00 p.m. on Friday, 30 June 2017 at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC. The notice convening the 2016 AGM will be dispatched in due course.

In order to ascertain the entitlements of the Shareholders to attend the 2016 AGM, the register of members of the Company will be closed from Tuesday, 30 May 2017 to Friday, 30 June 2017 (both days inclusive), during which period no transfer of the Shares will be effected. To be eligible to attend and vote at the 2016 AGM, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares), or the Company's board office in the PRC at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC, 100097 (for holders of Domestic Shares), no later than 4:30 p.m. on Monday, 29 May 2017.

2. Proposed 2016 Final Dividend

The Board has proposed to distribute the Proposed 2016 Final Dividend to the Shareholders whose names appear on the register of members of the Company on Tuesday, 11 July 2017. The above dividend is subject to the approval by Shareholders at the 2016 AGM to be held on Friday, 30 June 2017.

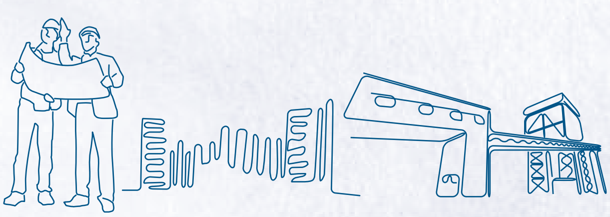
The Proposed 2016 Final Dividend is expected to be distributed on or before Wednesday, 23 August 2017. In order to ascertain the entitlements of the Shareholders to receive the Proposed 2016 Final Dividend, the register of members of the Company will be closed from Thursday, 6 July 2017 to Tuesday, 11 July 2017 (both days inclusive), during which period no transfer of Shares will be effected. To be eligible to receive the Proposed 2016 Final Dividend, all transfer documents must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares), or the Company's board office in the PRC at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC, 100097 (for holders of Domestic Shares), no later than 4:30 p.m. on Wednesday, 5 July 2017.

XV. TAX

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》) and its implementation regulations (the "**EIT Law**"), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H Shares registered in the name of non-individual enterprises, including HKSCC Nominees Limited, other agents or trustees, or other organizations or groups, shall be deemed as shares held by non-resident enterprise Shareholders (as defined under the EIT Law). When the Company distributes dividends to non-resident enterprise Shareholders, it is liable to withhold enterprise income tax on their behalf at an interest rate of 10%. Any H Shares registered in the name of non-individual enterprises, including HKSCC Nominees Limited, other agents or trustees, or other organizations or groups, shall be deemed as shares held by non-resident enterprise Shareholders. Therefore, the Company will distribute dividends to such non-resident enterprises Shareholders after withholding 10% of enterprise income tax. If H Shareholders need to change their Shareholder's status, they shall consult with the agents or trustees on the procedures. In strict compliance with laws and requirements of relevant government authorities, the Company will withhold the enterprise income tax according to the register of members of the H Shares of the Company as at the record date.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's register of members of H Share should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to the H Share Registrar, Computershare Hong Kong Investor Services Limited, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy and Administration of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document (《關於國税發(1993)045號文件廢止後有關個人所得税徵管問題的通知》) issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which have issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general.



If the individual H Shareholders are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of these Shareholders. If the individual H Shareholders are residents of those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the relevant tax treaty. Under the above circumstances, if the relevant individual H Shareholders want a refund of the extra amount withheld (the "**Extra Amount**") due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax treaty to the H Share Registrar. The Company will assist with the tax refund after receiving approval of the competent tax authority. Should the individual H Shareholders be residents of the countries which have an agreed tax rate of over 10% but less than 20% with the PRC under the tax treaty, the Company will withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax treaty. In the case that the individual H Shareholders are residents of the countries which have an agreed tax rate of 20% with the PRC, or which have not entered into any tax treaty with the PRC, or otherwise, the Company will withhold and pay the individual income tax at a rate of 20%.

The Company will strictly comply with the laws and requirements of the relevant government authorities and withhold and pay enterprise and individual income tax on behalf of the Shareholders based on the register of members of the H Shares on the Record Date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the Shareholders or any disputes over the mechanism of withholding of enterprise income tax. The Company assumes no liability whatsoever in respect of any claims arising from any delay in, or inaccurate determination of the status of the Shareholders or any disputes over the mechanism of withholding.

Taxation under accounting policies of the Group is set out in Note 10 to the financial statements in this annual report.

XVI. REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

From the Listing Date to 31 December 2016, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

XVII. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, total sales to the Company's five largest customers represented approximately 25% of total revenue of the Group for the year of 2016, among which total sales to the largest customer accounted for approximately 9% of total revenue of the Group for the year of 2016. The super-majority of our top five customers during the Reporting Period were subsidiaries of China Datang, and the Group was heavily reliant on sales to China Datang Group as its principal source of revenue. For the year ended 31 December 2016, the total value of products and services provided by the Group to China Datang Group represented approximately 76% of the total revenue of the Group for the corresponding period. If not taking into account of revenue generated from the concession operations, the Group's revenue generated from transactions with China Datang Group represented approximately 45% of the total revenue of the Group for the year ended 31 December 2016.

For the year ended 31 December 2016, total purchase from the Company's five largest suppliers represented approximately 19% of total cost of sales of the Group for the year of 2016, among which total purchase from the largest supplier accounted for approximately 6% of total cost of sales of the Group for the year of 2016. During the Reporting Period, the Group procured certain products and services from China Datang Group. For the years ended 31 December 2016, the total value of products and services procured by the Group from China Datang Group represented approximately 14% of the total costs of the Group for the year ended 31 December 2016.

To the best of the Directors' knowledge, except for certain subsidiaries of China Datang that were among our top five customers or suppliers, none of the Directors, Supervisors, Senior Management, their close associates or any Shareholders (to the best of the Directors' knowledge, who holds more than 5% of the issued Shares) have any interest in the five largest customers or suppliers of the Company during the Reporting Period.

During the Reporting Period, the Company maintained good relations with its customers and suppliers. The Company kept contact with its customers and suppliers, and maintained communication with them via various channels, such as telephone, email and physical meetings, to receive feedback and suggestions.

XVIII. BANK BORROWINGS AND OTHER LOANS

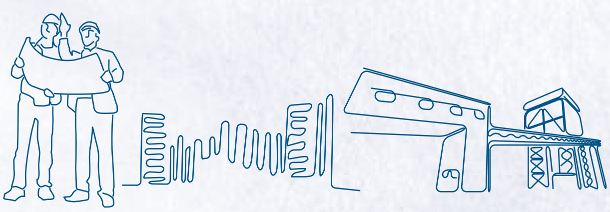
The details of bank borrowings and other loans of the Group as at 31 December 2016 are set out in Note 25 to the financial statements in this annual report.

XIX. STAFF

Staff is the key for the Group's sustainable development. Details of the staff of the Group are set out in the sections headed "Profile of Directors, Supervisors and Senior Management" and "Human Resources" on pages 84 to 94 and pages 95 to 96 respectively in this annual report.

XX. ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

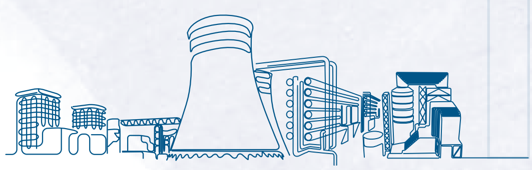
For the year ended 31 December 2016, the Group had no entrusted deposits with financial institutions in the PRC, or term deposits which were overdue but unrecovered.



XXI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning the Directors, Supervisors and Senior Management since the Listing Date and as at the date of this report of Directors:

Name	Position in the Company	Date of appointment/ resignation as a Director/ Supervisor/Senior Management
Directors		
JIN Yaohua	Chairman of the Board and non-executive Director	June 2015
LIU Chuandong	Non-executive Director	June 2015
LIU Guangming	Non-executive Director	April 2016
LIANG Yongpan	Non-executive Director	April 2016
DENG Xiandong	Executive Director and general manager	August 2013
LU Shengli	Executive Director and deputy general manager	June 2015
YE Xiang	Independent non-executive Director	June 2015
MAO Zhuanjian	Independent non-executive Director	June 2015
GAO Jiaxiang	Independent non-executive Director	April 2016
Supervisors		
WANG Yuanchun	Chairman of the Supervisory Committee	June 2015
LIU Liming	Supervisor	June 2015
LIU Jianxiang	Employee representative Supervisor	January 2017
WANG Hongjin	Former employee representative Supervisor	Resigned in January 2017
Senior Management[1]		
HU Xiaodong	Deputy general manager, former secretary of the Board, former Joint Company Secretary and authorised representative[2]	February 2012[2]
LIU Yinshun	Deputy general manager	March 2017
LI Zhenyu	Chief accountant	August 2016
SHEN Zhen	Deputy general manager	January 2015
MAO Hui	Deputy general manager	March 2017
ZENG Bing	Chief economist, secretary of the Board, Joint Company Secretary and authorised representative	March 2017
WU Deren	Former deputy general manager	Resigned in March 2017
XIA Huaixiang	Former chief engineer	Resigned in March 2017



Notes:

(1) The list of Senior Management excludes those who are also serving as Directors or Supervisors.

(2) Mr. HU Xiaodong resigned as secretary of the Board, Joint Company Secretary and authorized representative of the Company in March 2017.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and considers that each of the independent non-executive Directors is independent of the Company.

XXII. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

From the Listing Date to the date of this report of Directors, there was no change in information of the Directors.

From the Listing Date to the date of this report of Directors, according to the requirement of Rule 13.51B(1) of the Listing Rules, the changes in information of Supervisors are set out as follows:

- Mr. LIU Jianxiang served as the employee representative Supervisor with effect from January 2017.
- Mr. WANG Hongjin resigned as the employee representative Supervisor with effect from January 2017.

From the Listing Date to the date of this report of Directors, according to the requirement of Rule 13.51B(1) of the Listing Rules, the changes in information of Senior Management are set out as follows:

- Mr. LIU Yinshun served as a deputy general manager of the Company with effect from March 2017.
- Mr. MAO Hui served as a deputy general manager of the Company with effect from March 2017.
- Mr. ZENG Bing served as the chief economist of the Company, secretary of the Board, Joint Company Secretary and authorized representative of the Company with effect from March 2017.
- Mr. WU Deren resigned as a deputy general manager of the Company with effect from March 2017.
- Mr. XIA Huaixiang resigned as the chief engineer of the Company with effect from March 2017.
- Mr. HU Xiaodong resigned as the secretary of the Board, Joint Company Secretary and authorized representative of the Company with effect from March 2017.

For details, please refer to the announcements of the Company dated 18 January 2017 and 10 March 2017 with respect to the changes in Supervisors and Senior Management respectively.

XXIII. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and Senior Management are set out in the section headed "Profile of Directors, Supervisors and Senior Management" on pages 84 to 94 of this annual report.

XXIV. SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with each of the Directors. According to the Articles of Association, the term of office is three years. The principal particulars of these service contracts comprise (a) the term of office commencing from the effective date of their appointments to the date of the next Shareholder's general meeting for the re-election of Directors, and (b) termination provisions in accordance with their respective terms. Service contracts can be renewed in accordance with the Articles of Association and applicable regulations.

Each of the Supervisors has entered into a contract with the Company in respect of provisions, among other things, in compliance with relevant laws and regulations, and on observations of the Articles of Association and arbitration.

Save as disclosed above, none of the Directors or Supervisors has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

XXV. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors, Supervisors and Senior Management during the Reporting Period are set out in Note 8 and 32(d) to the financial statements and in the section headed "Remuneration of Directors, Supervisors and Senior Management" on page 76 of this annual report.

XXVI. INTERESTS OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

As at 31 December 2016, no transaction, arrangement or contract of significance to which the Company was involved in its establishment either directly or indirectly, in which a Director or Supervisor or an entity connected with a Director or Supervisor had material interests, and with which the Company's business is connected, subsisted during or at the end of the Reporting Period.

XXVII. INTEREST OF DIRECTORS IN COMPETING BUSINESS

As at 31 December 2016, Mr. Liu Guangming and Mr. Liang Yongpan, two non-executive Directors also acted as non-executive directors of Datang Renewable (a subsidiary of China Datang and listed on the Main Board of the Stock Exchange, stock code: 1798), and directors of Datang Huayin (a subsidiary of China Datang and listed on the Shanghai Stock Exchange, stock code: 600744). Neither of Mr. Liu Guangming and Mr. Liang Yongpan was involved in daily operations of Datang Renewable or Datang Huayin. As at 31 December 2016, Datang Renewable held interests in EMC business and wind power EPC business that competes with Our Principle Business (as defined in the Prospectus), and Datang Huayin held interests in EMC business and energy conservation EPC business that competes with Our Principle Business. For details, please refer to the section headed "Relationship with Our Controlling Shareholder" in the Prospectus.

Mr. Liu Guangming and Mr. Liang Yongpan will abstain from voting for decision making involving any competing business with Datang Renewable or Datang Huayin. Even if both of them simultaneously abstain from voting, there will still remain seven Directors (including two non-executive Directors, two executive Directors and three independent non-executive Directors) in the Board which will enable effective decision makings.

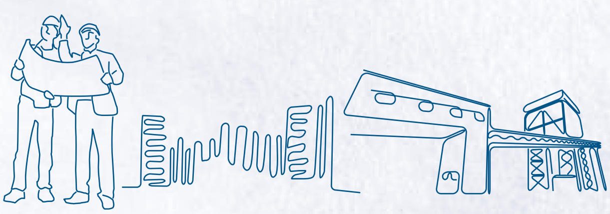
Save as disclosed above, the Directors confirm that, as of 31 December 2016, neither of them had any direct or indirect interest in any business which competes or might compete with Our Principal Business.

XXVIII. INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, none of the Directors, Supervisors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") stated in Appendix 10 to the Listing Rules.

XXIX. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

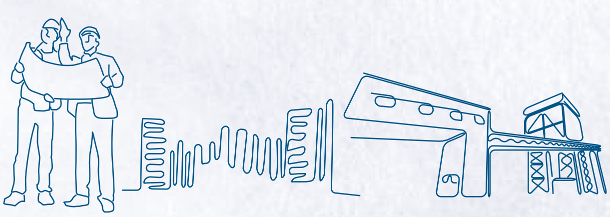
As at 31 December 2016, to the best of the Directors' knowledge, having made all reasonable enquiry, the following persons (other than the Directors, Supervisors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the



Company pursuant to Divisions 2 and 3 of Part XV of the SFO and, which were entered in the register required to be kept by the Company pursuant to Section 336 of the SFO:

	As at 31 December 2016				
Name of Substantial Shareholder	**Class of Shares**	**Capacity**	**Number of Shares/ underlying Shares directly or indirectly held** *(Share)*	**Percentage in the relevant class of Share capital**(1) *(%)*	**Percentage in the total Share capital**(2) *(%)*
China Datang	Domestic Shares	Beneficial owner	2,343,245,800 (Long position)	100	78.96
Anbang Investment Holdings Co. Limited (安邦投資控股有限公司)(3)	H Shares	Beneficial owner	120,540,000 (Long position)	19.31	4.06
Anbang Group Holdings Co. Limited (安邦集團控股有限公司)(3)	H Shares	Interest in controlled corporation	120,540,000 (Long position)	19.31	4.06
Anbang Life Insurance Co., Ltd. (安邦人壽保險股份有限公司)(3)	H Shares	Interest in controlled corporation	120,540,000 (Long position)	19.31	4.06
Anbang Insurance Group Co., Ltd. (安邦保險集團股份有限公司)(3)	H Shares	Interest in controlled corporation	120,540,000 (Long position)	19.31	4.06
China Chengtong Investment Company Limited(4)	H Shares	Beneficial owner	61,557,000 (Long position)	9.86	2.07
China Chengtong Holdings Group Ltd.(4)	H Shares	Interest in controlled corporation	61,557,000 (Long position)	9.86	2.07
China Energy Engineering Corporation Limited (中國能源建設集團有限公司)	H Shares	Beneficial owner	61,557,000 (Long position)	9.86	2.07
State Grid International Development Limited (國家電網國際發展有限公司)(5)	H Shares	Beneficial owner	61,467,000 (Long position)	9.85	2.07
State Grid Corporation of China (國家電網公司)(5)	H Shares	Interest in controlled corporation	61,467,000 (Long position)	9.85	2.07
Three Gorges Capital Holdings Co., Ltd. (三峽資本控股有限責任公司)(6)	H Shares	Beneficial owner	59,506,000 (Long position)	9.53	2.01
China Three Gorges Corporation (中國長江三峽集團公司)(6)	H Shares	Interest in controlled corporation	59,506,000 (Long position)	9.53	2.01
NSSF	H Shares	Beneficial owner	56,754,200 (Long position)	9.09	1.91
China Huaneng Group Hong Kong Limited (中國華能集團香港有限公司)(7)	H Shares	Beneficial owner	49,002,000 (Long position)	7.85	1.65
China Huaneng Group (中國華能集團公司)(7)	H Shares	Interest in controlled corporation	49,002,000 (Long position)	7.85	1.65

Name of Substantial Shareholder	Class of Shares	Capacity	As at 31 December 2016 Number of Shares/ underlying Shares directly or indirectly held *(Share)*	Percentage in the relevant class of Share capital[1] *(%)*	Percentage in the total Share capital[2] *(%)*
China Huadian Hong Kong Limited (中國華電香港有限公司)[8]	H Shares	Beneficial owner	48,628,000 (Long position)	7.79	1.64
China Huadian Corporation (中國華電集團公司)[8]	H Shares	Interest in controlled corporation	48,628,000 (Long position)	7.79	1.64
Taiping General Insurance Co., Ltd. (太平財產保險有限公司)[9]	H Shares	Beneficial owner	41,038,000 (Long position)	6.57	1.38
China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司)[9]	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Taiping Insurance (HK) Company Limited (中國太平保險集團(香港)有限公司)[9]	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Taiping Insurance Group Ltd. (中國太平保險集團有限責任公司)[9]	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Life Franklin Asset Management Co., Limited (中國人壽富蘭克林資產管理有限公司)[10]	H Shares	Beneficial owner	41,038,000 (Long position)	6.57	1.38
China Life Asset Management Company Limited (中國人壽資產管理有限公司)[10]	H Shares	Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Life Insurance Company Limited (中國人壽保險股份有限公司)[10]	H Shares	Beneficial owner	20,519,000 (Long position)	3.29	0.69
		Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38
China Life Insurance (Group) Company (中國人壽保險(集團)公司)[10]	H Shares	Beneficial owner	41,038,000 (Long position)	6.57	1.38
		Interest in controlled corporation	20,519,000 (Long position)	3.29	0.69
		Interest in controlled corporation	41,038,000 (Long position)	6.57	1.38



Notes:

(1) The calculation is based on the percentage of shareholding in a total of 2,343,245,800 Domestic Shares and a total of 624,296,200 H Shares respectively as at 31 December 2016.

(2) The calculation is based on the percentage of shareholding in a total of 2,967,542,000 Shares as at 31 December 2016.

(3) Anbang Investment Holdings Co., Limited is a wholly-owned subsidiary of Anbang Group Holdings Co. Limited. Anbang Group Holdings Co. Limited is a wholly-owned subsidiary of Anbang Life Insurance Co., Ltd., which is wholly-owned by Anbang Insurance Group Co., Ltd..

(4) China Chengtong Investment Company Limited is a wholly-owned subsidiary of China Chengtong Holdings Group Ltd..

(5) State Grid International Development Limited is a wholly-owned subsidiary of State Grid Corporation of China.

(6) Three Gorges Capital Holdings Co., Ltd. is the wholly-owned subsidiary of China Three Gorges Corporation.

(7) China Huaneng Group Hong Kong Limited is a wholly-owned subsidiary of China Huaneng Group.

(8) China Huadian Hong Kong Company Limited is a wholly-owned subsidiary of China Huadian Corporation.

(9) Taiping General Insurance Co., Ltd. is a subsidiary of China Taiping Insurance Holdings Company Limited. China Taiping Insurance Holdings Company Limited is a subsidiary of China Taiping Insurance (HK) Company Limited, which is a wholly-owned subsidiary of China Taiping Insurance Group Ltd..

(10) China Life Asset Management Company Limited is a controlling shareholder of China Life Franklin Asset Management Co., Limited. China Life Asset Management Company Limited is a subsidiary of China Life Insurance Company Limited, which is controlled by China Life Insurance (Group) Company.

Save as disclosed above, as at 31 December 2016, to the best knowledge of the Directors, the Directors were not aware of any persons who had interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and which were entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

XXX. DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or Supervisors or any of their respective associates was granted by the Company or its subsidiaries any right to acquire the Shares or debentures of the Company or any other corporate body, or had exercised any such right.

XXXI. FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

As at 31 December 2016, there is no financial, business or family relationship between the Directors, Supervisors and Senior Management.

XXXII. DIRECTORS' INSURANCE

As at 31 December 2016, the Company maintained effective Directors' insurance for the Directors.

XXXIII. MANAGEMENT CONTRACTS

From the Listing Date to 31 December 2016, the Company did not enter into any contract in respect of the management or administration of the entire or any significant part of the business of the Company nor any such contract subsisted.

XXXIV. CONNECTED TRANSACTIONS

During the Reporting Period, the Group has conducted the following connected transactions:

1. Exempt Continuing Connected Transactions

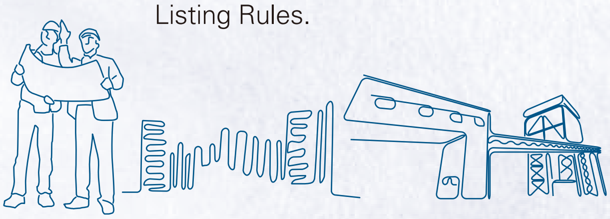
Pursuant to Chapter 14A of the Listing Rules, the continuing connected transaction of the Group as set out below is exempt from the requirements of reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

Trademark Licensing Agreement

The Company and China Datang entered into a trademark licensing agreement on 1 December 2015 (the "**Trademark Licensing Agreement**"), in accordance with which China Datang agreed to grant the Group a non-exclusive license to use any of certain registered trademarks owned by China Datang for purposes of the Group's production equipment, products, services and profile documents, as well as using such licensed trademarks in the Company's business names, trade names or domain names. The initial term of the Trademark Licensing Agreement is three years after the Listing, which can be renewed upon agreement by the parties. The trademark license is granted by China Datang at nil consideration.

During the Reporting Period, the Group did not pay any royalty fees to China Datang for the use of the licensed trademarks.

China Datang will remain as the Controlling Shareholder, and therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules. The transaction above is entered into on normal commercial terms. The Directors currently expect that the applicable percentage ratios of the above transaction for the respective years are nil. By virtue of Rule 14A.76(1)(a) of the Listing Rules, the continuing connected transaction above is exempt from the requirements of reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.



2. Non-exempt Continuing Connected Transactions

Continuing Connected Transaction Exempt from the Circular and Shareholders' Approval Requirement

The following transaction between Nanjing Environmental Protection (a subsidiary of the Company) and Datang Financial Lease Co., Ltd. (a non-wholly owned subsidiary of China Datang) is conducted on normal commercial terms. The Directors currently expect that, each of the applicable percentage ratios of the transaction calculated for purpose of Chapter 14A of the Listing Rules will be less than 5% on an annual basis. By virtue of Rule 14A.76(2) of the Listing Rules, such transaction will constitute a continuing connected transaction of the Company exempt from the circular and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

Financial Leasing Agreement between Datang Financial Lease Co., Ltd. and Nanjing Environmental Protection

Datang Financial Lease Co., Ltd. and Nanjing Environmental Protection entered into a financial leasing agreement (the "**Financial Leasing Agreement**") on 29 September 2015, which amended terms of the Financial Leasing Agreement between both parties dated 4 June 2013. Pursuant to the Financial Leasing Agreement, Datang Financial Lease Co., Ltd. shall provide financial leasing services to Nanjing Environmental Protection for procurement of a denitrification production line and various equipment. Pursuant to the Financial Leasing Agreement, Datang Financial Lease Co., Ltd. shall provide funds to procure such denitrification production line and various equipment which are rented to Nanjing Environmental Protection. Accordingly, Nanjing Environmental Protection shall periodically pay rentals to Datang Financial Lease Co., Ltd. and the ownership of such denitrification production line and various equipment shall be transferred to Nanjing Environmental Protection upon expiration of the rental term under the Financial Leasing Agreement. Pursuant to the Financial Leasing Agreement, the rental term will be expired on 30 June 2017.

Pursuant to the Financial Leasing Agreement, rentals paid by Nanjing Environmental Protection to Datang Financial Lease Co., Ltd. include (a) costs for procurement of such denitrification production line and various equipment and (b) interests. The interests are determined based on the benchmark interest rates for loan as implemented by the People's Bank of China starting from 26 August 2015.

The Financial Leasing Agreement was negotiated on normal commercial terms. China Datang will remain as the Controlling Shareholder, and therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Datang Financial Lease Co., Ltd. is a non-wholly owned subsidiary of China Datang, and Nanjing Environmental Protection is a subsidiary of the Company, therefore, the transactions between Datang Financial Lease Co., Ltd. and Nanjing Environmental Protection are connected transactions of the Company. The Company has applied to the Stock Exchange and the Stock Exchange has granted the Company, a waiver from strict compliance with the rules regarding the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, on condition that the aggregate amount of non-exempt continuing connected transactions in each of the year of 2016, 2017 and 2018 will not exceed the respective annual caps as set out in the Prospectus.

The exempt cap of rentals paid by Nanjing Environmental Protection to Datang Financial Lease Co., Ltd. under the Financial Leasing Agreement for the year of 2016 approved by the Stock Exchange was RMB28 million. The actual total amount of rentals under the Financial Leasing Agreement in 2016 was RMB27.1 million.

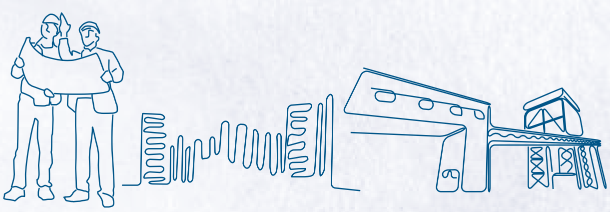
Non-exempt Continuing Connected Transactions subject to Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements

The following transactions are or will be conducted on normal commercial terms in the daily operations of the Group. The Directors currently expect that, each of the applicable percentage ratios of relevant transactions calculated for the purpose of Chapter 14A of the Listing Rules will exceed 5% on an annual basis, and the annual transaction amount will exceed HK$10 million. Accordingly, each of such transactions will constitute a non-exempt continuing connected transaction of the Company subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Integrated Product and Service Framework Agreement between the Group and China Datang Group

The Company entered into an integrated product and service framework agreement (the "**Integrated Product and Service Framework Agreement**") with China Datang on 26 October 2016 which took effect upon the Listing with an initial term of three years and can be renewed by agreement by the parties. Either party may terminate this agreement by a three-month prior written notice to the other party.

Pursuant to this agreement, (a) the products and services to be provided by the Group to China Datang Group include environmental protection and energy conservation solutions, renewable energy engineering services, EPC for thermal power plants and other businesses, and (b) the products and services to be procured by the Group from China Datang Group include water and power supply, ancillary services under the business model of concession operations (desulfurization and denitrification), logistics services and procurement of equipment. In respect of all the products and services under the Integrated Product and Service Framework Agreement, the Company and/or its subsidiaries and China Datang and/or its subsidiaries can enter into separate contracts under and in line with the Integrated Product and Service Framework Agreement. If the terms and conditions of similar products and services offered by an independent third party to such party are no more favorable than those provided by one party, priority shall be accorded in the provision of products and services to the other party.



The pricing policies of various products and services are as follows:

- For products and services to be provided by the Group to China Datang Group, in most circumstances, bidding procedures shall apply for the determination of such prices, and only in exceptional circumstances, bidding procedures can be skipped by China Datang Group. These exceptional circumstances primarily include reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent purchase by China Datang Group that does not allow the bidding procedure to be completed.

  (a) The price for the products, primarily denitrification catalysts, and services other than the concession operations (desulfurization and denitrification), to be provided by the Group to China Datang Group will be determined based on the bidding results, or if no bidding procedure is conducted, China Datang Group will search in its database for projects of a similar nature and make reference to recent bidding prices for comparable products. Usually the price is ascertained as the averaged amount of these recent bidding prices with reasonable fluctuations. However, if no recent bidding prices for comparable products can be found in its database, China Datang Group will make reference to prices of products of the similar nature published on official bidding websites operated by the PRC's government to ascertain the price.

  (b) The tariff for desulfurized and denitrified electricity under the concession operations services shall be determined based on government-prescribed price. The price of by-products shall be determined based on market price.

- For products and services to be procured by the Group from China Datang Group, in most circumstances, bidding procedures shall apply for determination of the price, and only in exceptional circumstances, bidding procedures can be skipped by the Group. These circumstances primarily include reoccurrence of lack of sufficient number of bidders attending the bidding procedure and urgent purchase by the Group that does not allow the bidding procedure to be completed.

  (a) The products, primarily water and power supplied by power plants under China Datang Group to the Group, will be determined based on the government-prescribed prices, which are actual costs of water and power for the supply of water and power by power plants to third-party desulfurization and denitrification concession operations service providers.

  (b) The price for ancillary services under the concession operations (desulfurization and denitrification) services shall be determined based on cost of human resources involved, the relevant management expenses and the maintenance fees of the equipment of relevant power plants after taking into account the average level of the industry.

  (c) For procurement of equipment, in most circumstances, bidding procedures shall apply for determination of the price, and only in exceptional circumstances, such as urgent purchase by the Group, bidding procedures can be skipped by the Group where the purchasing price shall be determined by experts of the Group based on fair market value and historical records of procurement price.

(d) The price of the services other than the ancillary services under the concession operations (desulfurization and denitrification) to be provided by the Group to China Datang Group in accordance the Integrated Product and Service Framework Agreement shall be determined based on the following policies: Prices for bidding services shall be determined pursuant to the fee standards prescribed by the PRC government. Prices for other services, including conference services and training shall be determined based on market prices by making reference to recent prices for comparable services archived in the Group's database; if no comparable services can be found, the Group will make reference to prices of services of similar nature published on official bidding websites operated by the government to ascertain the price.

The transactions under the Integrated Product and Service Framework Agreement were negotiated on normal commercial terms. China Datang remained as the Controlling Shareholder, and therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Prior to the Listing, the Company had applied to the Stock Exchange and the Stock Exchange had granted the Company, a waiver from strict compliance with the rules regarding the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, on condition that the aggregate amount of non-exempt continuing connected transactions in each of the year of 2016, 2017 and 2018 would not exceed the respective annual caps as set out in the Prospectus.

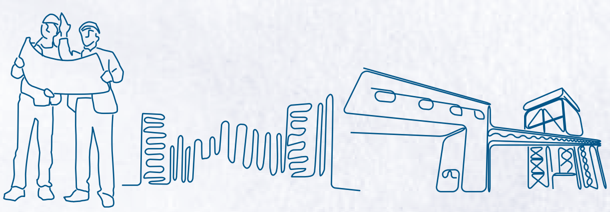
The exempt cap for the year of 2016 for products and services other than concession operations (desulfurization and denitrification) services provided by the Group to China Datang Group as approved by the Stock Exchange was RMB6,718 million. The actual total amount of products and services other than concession operations (desulfurization and denitrification) services provided by the Group to China Datang Group under the aforesaid agreement in 2016 was RMB3,739.8 million.

The exempt cap for the year of 2016 for concession operations (desulfurization and denitrification) services provided by the Group to China Datang Group as approved by the Stock Exchange was RMB2,715 million. The actual total amount of concession operations (desulfurization and denitrification) services provided by the Group to China Datang Group under the aforesaid agreement in 2016 was RMB2,463.9 million.

The exempt cap for the year of 2016 products and services procured by the Group from China Datang Group as approved by the Stock Exchange was RMB2,320 million. The actual total amount of products and services procured by the Group from China Datang Group under the aforesaid agreement in 2016 was RMB877.5 million.

Framework Agreement under which China Datang Group leases properties to the Group

The Company and China Datang entered into a property leasing framework agreement on 1 December 2015 (the "**Property Leasing Framework Agreement**"), pursuant to which China Datang Group will lease certain properties to the Group. The Property Leasing Framework Agreement is for a term of 20 years and will take effect upon the Listing and is subject to renewal.



The rental of any leased property shall be ascertained through negotiation between the Group and China Datang Group primarily based on the actual costs of the property and taking into consideration the market price of similar properties in the same region where applicable and the relevant depreciation cost. The rental shall be provided as a fixed amount in the separate lease agreement to be executed in writing and between the Group and China Datang Group under the Property Lease Framework Agreement, the initial term of which shall be five years and can be renewed in writing by both parties. If, due to any change of national policies or market fluctuations that affects the fairness and reasonableness of the rental of a leased property under any lease agreement, the Group and China Datang Group may adjust the rental based on arm's length negotiations with reference to the new market price. However, the rental amount or any adjustment to the rental amount is subject to the independent non-executive Directors' review and approve to ensure that the rental amount is fair, reasonable and in the interest of the Company and the Shareholders as a whole.

The transactions under the Integrated Product and Service Framework Agreement were negotiated on normal commercial terms. China Datang remained as the Controlling Shareholder, and therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Prior to the Listing, the Company had applied to the Stock Exchange and the Stock Exchange had granted the Company, a waiver from strict compliance with the rules regarding the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, on condition that the aggregate amount of non-exempt continuing connected transactions in each of the year of 2016, 2017 and 2018 will not exceed the respective annual caps as set out in the Prospectus.

The exempt cap for the year of 2016 for the aforementioned property rent paid by the Group to China Datang Group and its associate(s) as approved by the Stock Exchange was RMB100 million. The actual total amount of property rent paid by the Group to China Datang Group and its associate(s) under the aforesaid agreement in 2016 was RMB34.3 million.

For details of the information with respect to the connected transactions mentioned above, please refer to the disclosure as set out in the section headed "Connected Transactions" of the Prospectus.

3. Confirmation by Independent Non-executive Directors

The independent non-executive Directors have reviewed each of the above mentioned continuing connected transactions and confirmed that:

(1) the transactions stated in the section headed "– Exempt Continuing Connected Transactions" in this annual report have been generated during the Group's ordinary and usual course of business on normal commercial terms (or more favorable than normal commercial terms available for the Group), and that the terms of such transactions are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole; and

(2) the transactions and proposed annual caps stated in this section headed "– Non-exempt Continuing Connected Transactions" in this annual report have been generated during the Group's ordinary and usual course of business on normal commercial terms (or more favorable than normal commercial terms available for the Group), and that the terms of such transactions are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

4. Auditor's Letter

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company, Ernst & Young, to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on its work, Ernst & Young has provided the Board with a letter confirming that, with respect to the aforesaid continuing connected transactions:

(1) nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

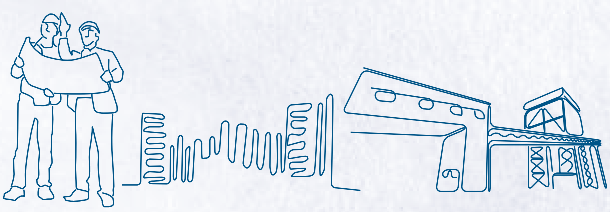
(2) for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(4) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap of each of the above disclosed continuing connected transactions set by the Company.

5. Related Party Transactions

Please refer to Note 32 to the financial statements in this annual report for details of the significant related party transactions pursuant to IFRSs. For the connected transactions and continuing connected transactions pursuant to the requirements of the Listing Rules, please refer to the disclosure as set out in the above section headed "Connected Transactions" in this report of Directors. Except for those disclosed in the section headed "Connected Transactions" in this report of Directors, the other related party transactions as disclosed in Note 32 are not considered as connected transactions, or are exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.



XXXV. COMPLIANCE WITH NON-COMPETITION AGREEMENT

The Company entered into the non-competition agreement with China Datang on 1 December 2015 (the "**Non-Competition Agreement**"). Under the Non-Competition Agreement, China Datang irrevocably undertook that, other than the Retained Business (as defined in the Prospectus), China Datang and its subsidiaries (excluding the Group and listed entities under China Datang and their respective subsidiaries) did not, during the term of the Non-Competition Agreement, and would procure their close associates not to, directly or indirectly, engage in, individually or jointly, with other entities, or assist to engage in or participate in any business which competes with our principal business (as defined in the Prospectus). Furthermore, China Datang undertook to grant an option to the Company to acquire new business opportunities that may compete, directly or indirectly, with our principal business, an option to acquire and a right of first refusal with regard to the retained business and/or the new competing business (as defined in the Prospectus).

The independent non-executive Directors are responsible for reviewing and determining whether to accept such new business opportunity provided by China Datang or its associates by taking into consideration factors such as geography and compatibility of business nature of such new business opportunity to the Group's strategy and prospect.

During the Reporting Period, there was no new business opportunity provided by China Datang or its associate(s) in accordance with the Non-Competition Agreement.

The Company has received the confirmation letter from China Datang, which confirmed that, in 2016, China Datang was in compliance with all undertakings and provisions under the Non-Competition Agreement.

The independent non-executive Directors have reviewed the implementation of the Non-Competition Agreement and confirmed that China Datang has been in full compliance with the Non-Competition Agreement and there was no breach by China Datang.

XXXVI. RETIREMENT AND EMPLOYEES BENEFIT SCHEME

Details of the Company's retirement and employees benefit scheme are set out in Note 7 to the financial statements in this annual report.

XXXVII. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a company listed on the Main Board of the Stock Exchange, the Company strives to maintain a high standard of corporate governance practices. Save as disclosed in this annual report, from the Listing Date to 31 December 2016, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Please refer to the Corporate Governance Report as set out on pages 60 to 79 of this annual report for details.

XXXVIII. PUBLIC FLOAT

Based on information publicly available to the Company and so far as the Directors are aware, not less than 20% of the issued share capital of the Company was held by the public as at the Latest Practicable Date, which was in compliance with the requirements and public float waiver approved by the Stock Exchange under the Listing Rules. For details of the public float waiver, please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in the Prospectus.

XXXIX. MATERIAL LITIGATION

As at 31 December 2016, the Group was not involved in any material litigation or arbitration. So far as the Directors are aware, no such litigation or claims are pending or threatened against the Group.

XL. AUDIT COMMITTEE

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

XLI. AUDITORS

On 29 April 2016, Ernst & Young and Ernst & Young Hua Ming LLP were appointed as the international and domestic auditors of the Company, respectively for the year 2016 at the Shareholders' meeting of the Company, with a term of one year.

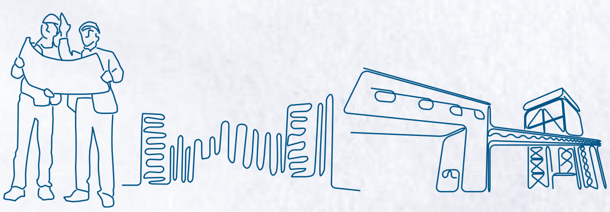
Ernst & Young and Ernst & Young Hua Ming LLP were appointed to audit the financial statements for the year ended 31 December 2016 prepared in accordance with IFRSs and PRC GAAP, respectively.

Ernst & Young and Ernst & Young Hua Ming LLP will retire at the 2016 AGM and the resolutions for the re-appointments of Ernst & Young and Ernst & Young Hua Ming LLP as auditors of the Company will be proposed at the 2016 AGM.

The auditor of the Company was ZhongHui Certified Public Accountants Co., Ltd. in 2014. In order to prepare for the Listing, the Company appointed Ernst & Young and Ernst & Young Hua Ming LLP as the international and domestic auditors instead of ZhongHui Certified Public Accountants Co., Ltd. in 2015. The Company has not changed its auditors since the commencement of preparing for the Listing.

XLII. FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the four years ended 31 December 2016 is set out on pages 9 to 11 of this annual report.



XLIII. CHANGES IN ACCOUNTING POLICIES

There was no change in accounting policies of the Company during the Reporting Period.

Details of the accounting policies are set out in Notes 2 and 3 to the financial statements in this annual report.

XLIV. MATERIAL CONTRACTS

Save as disclosed in the section headed "Connected Transactions" in this report of Directors, in 2016 none of the Company or any of its subsidiaries entered into material contracts with the Controlling Shareholder or any of its subsidiaries other than the Group, nor was there any material contract between the Group and the Controlling Shareholder or any of its subsidiaries other than the Group in relation to provision of services.

XLV. EQUITY-LINKED AGREEMENT

No equity-linked agreement was entered by the Company for the year ended 31 December 2016.

XLVI. SIGNIFICANT SUBSEQUENT EVENT

The significant subsequent events occurred after 31 December 2016 are set out in Note 36 to the financial statements and in the section headed "Significant Subsequent Event" under the corporate governance report in this annual report.

By order of the Board

JIN Yaohua
Chairman

Beijing, the PRC, 24 March 2017

I. CORPORATE GOVERNANCE PRACTICES

The Company has always been committed to improving corporate governance since its establishment. According to provisions of the Corporate Governance Code (the "**Code**") set out in Appendix 14 to the Listing Rules, it has established a modern corporate governance structure comprising a number of independently operated bodies including the general meetings, the Board, the Supervisory Committee and the Senior Management in order to provide an effective check and balance. The Company has also adopted the Code as its own corporate governance practices.

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

From the Listing Date to the Latest Practicable Date, the Company had been in compliance with the principles and code provisions contained in the Code.

Corporate governance practices adopted by the Company are outlined as follows:

II. BOARD

The Board carries out its duties and exercises its powers in accordance with the Articles of Association and in the best interest of the Company and its Shareholders. It reports and is held accountable to the general meetings, and implements the resolutions thereof.

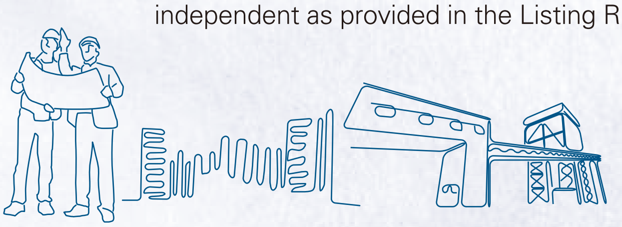
1. Composition of the Board

As at the Latest Practicable Date, the Board consisted of nine Directors, including four non-executive Directors, two executive Directors and three independent non-executive Directors.

The biographical details of the Directors as at the Latest Practicable Date are set out on pages 84 to 94 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) between members of the Board. The structure of the Board is well balanced, with each Director equipped with profound knowledge, experience and expertise relevant to the Company's business operation and development. All Directors are well aware of their joint and individual responsibilities toward the Shareholders.

From the Listing Date to the Latest Practicable Date, the Board had always been abiding by the requirements of the Listing Rules regarding the appointment of at least three independent non-executive Directors and that independent non-executive Directors shall represent at least one-third of the Board.

The qualifications of the three independent non-executive Directors are in full compliance with the requirements under Rules 3.10(1), 3.10(2), 3.10A and 19A.18(1) of the Listing Rules. In addition, the Company has received annual confirmations dispatched by each independent non-executive Director in accordance with Rule 3.13 of the Listing Rules as to their respective independence. Therefore, the Company is of the view that each independent non-executive Director is independent as provided in the Listing Rules.



Current members of the Board are listed in the following table:

Name	Position	Date of appointment as the Director
JIN Yaohua	Chairman of the Board and non-executive Director	June 2015
LIU Chuandong	Non-executive Director	June 2015
LIU Guangming	Non-executive Director	April 2016
LIANG Yongpan	Non-executive Director	April 2016
DENG Xiandong	Executive Director and general manager	August 2013
LU Shengli	Executive Director and deputy general manager	June 2015
YE Xiang	Independent non-executive Director	June 2015
MAO Zhuanjian	Independent non-executive Director	June 2015
GAO Jiaxiang	Independent non-executive Director	April 2016

2. Board meetings

According to the Articles of Association, the Board is required to hold Board meetings at least four times each year to be convened by the Chairman of the Board.

Notices of regular Board meetings shall be dispatched at least 14 days in advance.

A quorum for the Board meeting can be formed by half or more than half of the Directors attending the meeting. Directors may attend the Board meeting in person or appoint another Director as his proxy pursuant to certain requirements. Except where a Board meeting is convened to consider connected transactions as provided in the Articles of Association, resolutions of the Board shall be passed by more than half of all the Directors. The secretary of the Board is responsible for preparing and keeping minutes of Board meetings and making sure that such minutes are available for reference by any Director.

During the Reporting Period and as at the Latest Practicable Date, the Board held four meetings, details of which are set out as follows:

- The 8th meeting of the first session of the Board was held on 29 April 2016, at which, resolutions, among others, regarding (1) report of the general manager for 2015; (2) report of the Board for 2015; (3) final financial accounts for 2015; (4) final budget report for 2016; (5) profit distribution plan for 2015; and (6) re-appointment of auditors for 2016 were considered and approved.

- The 16th meeting of the first session of the Board was held on 10 March 2017, at which, resolution regarding the appointment and resignation of certain Senior Management and the change of one of Joint Company Secretaries and authorised representatives of the Company was considered and approved.

- The 17th meeting of the first session of the Board was held on 24 March 2017, at which, resolutions, among others, regarding (1) report of the general manager for 2016; (2) report of the Board for 2016; (3) 2016 annual results announcement and the annual report; (4) final financial accounts for 2016; (5) final budget report for 2017; (6) profit distribution plan for 2016 and the Proposed 2016 Final Dividend; (7) continuing connected transactions under financial services agreement; (8) re-appointments of international and domestic auditors for 2017; (9) remuneration report for Directors, Supervisors and Senior Management for 2016; (10) the assessment and incentive for the work of operation management team in the year of 2016; (11) the investment plan for 2017; (12) the commercial banks' comprehensive credit line for 2017; and (13) report on the use of proceeds were considered and approved.

- The 18th meeting of the first session of the Board was held on 19 April 2017, at which, resolutions regarding (1) amendments to the Articles of Association; and (2) appointment of a proxy to distribute dividend to H Shareholders and to deal with relevant matters were considered and approved.

Name	Position	Attendance/ number of meetings held
JIN Yaohua	Chairman of the Board and non-executive Director	4/4
LIU Chuandong(1)	Non-executive Director	3/4
LIU Guangming	Non-executive Director	4/4
LIANG Yongpan(2)	Non-executive Director	3/4
DENG Xiandong	Executive Director and general manager	4/4
LU Shengli	Executive Director and deputy general manager	4/4
YE Xiang	Independent non-executive Director	4/4
MAO Zhuanjian	Independent non-executive Director	4/4
GAO Jiaxiang	Independent non-executive Director	4/4

Notes:

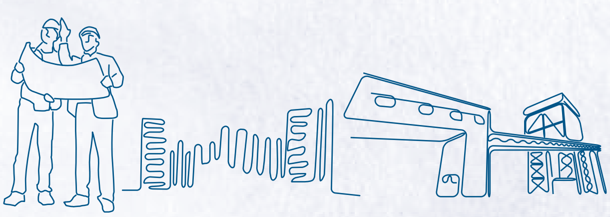
(1) Mr. LIU Chuandong did not attend one of the meetings as he was on a business trip and he authorised Mr. LIU Guangming as his proxy to attend and vote at such meeting.

(2) Mr. LIANG Yongpan did not attend one of the meetings as he was on a business trip and he authorised Mr. LIU Guangming as his proxy to attend and vote at such meeting.

In particular, Mr. JIN Yaohua, Chairman of the Board, held one meeting with the non-executive Directors (including the independent non-executive Directors) in March 2017.

3. Powers and responsibilities of the Board and the management

The powers and responsibilities of the Board and the management of the Company are specified in the Articles of Association, providing a sufficient balanced and restrained mechanism for corporate governance and internal controls.



The Board shall be responsible for and shall have general power to manage and develop the Company's business. Pursuant to the Articles of Association, the functions and duties of the Board include, among other things, convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings, implementing the resolutions of Shareholders' general meetings, determining business plans and investment plans and detailed annual business objectives of the Company and financing plans other than by ways of issue of corporate debentures or other securities and of listing, formulating annual budget, final accounts, profit distribution plan and plan for recovery of losses, proposals for increase or reductions of the Company's registered capital and the issue of corporate debentures or other securities and listing.

The Board is responsible for the Company's corporate governance. The Company has formulated its corporate governance policy pursuant to the requirements of Appendix 14 to the Listing Rules. From the Listing Date to 31 December 2016, the Board performed its duties according to the corporate governance policy of the Company In 2016, the Board mainly reviewed the Company's corporate governance policy and practices, reviewed and monitored the training and continuous professional development of Directors and Senior Management, reviewed and monitored the Company's policy and practices in respect of compliance with laws and regulatory regulations, developed, reviewed and monitored the code of conduct and compliance manual for employees and Directors, and reviewed the Company's compliance with the Code and the disclosures made in the Corporate Governance Report.

All Directors have full and timely access to all relevant information as well as the advice and services of the Joint Company Secretaries, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The management of the Company, led by the general manager of the Company (who is also an executive Director), is responsible for implementing all the resolutions issued by the Board and organising management of the Company's day-to-day operation.

4. Chairman and the General Manager

The positions of the Chairman and the general manager of the Company (i.e., chief executive officer under the terms of the Listing Rules) of the Company are held by different persons in order to ensure independence, accountability of their respective functions and balanced distribution of power and authority between them. Mr. JIN Yaohua and Mr. DENG Xiandong served as the Chairman and the general manager of the Company respectively, whose powers and responsibilities were clearly divided.

In 2016, the Chairman, Mr. JIN Yaohua, who led the Board, decided on the Company's overall development strategies, ensured the effective operation of the Board, performed his bounden duties, and brought all important matters to discussion in a timely manner. ensuring that the Company had in place good corporate governance practices and procedures and that the Board acted in the best interests of the Company and its Shareholders as a whole. In 2016, the general manager of the Company, Mr. DENG Xiandong was mainly responsible for the overall business operation and management of the Company.

5. Appointment, removal and re-election of Directors

As provided in the Articles of Association, Directors are elected by general meetings for a term of three years and are eligible for re-election and re-appointment. The Company has implemented a set of effective procedures regarding the appointment of new Directors in the Articles of Association. The nomination of new Directors is firstly discussed by the nomination committee of the Company (the "**Nomination Committee**") which then submits its recommendation to the Board, and is subject to approval via the election in general meeting.

The Company has entered into service contracts with all its Directors (including non-executive Directors) for a term commencing from the date of appointment to the date of the next Shareholder's general meeting for the re-election of Directors and subject to termination in accordance with the terms under respective service contracts.

6. Board diversity

The Company believes that the increasing diversity at the Board level is one of essential elements in supporting the attainment of its strategic objectives and its sustainable development, therefore, the Company formulated board diversity policy of the Company in October 2016 ("**Board Diversity Policy**"). While determining the composition of the Board, the Company shall consider the diversity of the Board from various perspectives, including, without limitation, gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision of the Board will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will report the composition of the Board at a diversity level in the annual report each year, and monitor the implementation of this policy. The Nomination Committee will review this policy, as appropriate, to ensure its effectiveness. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

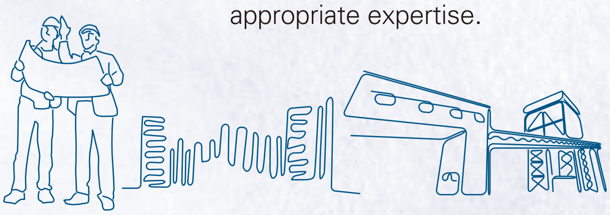
7. Remuneration of Directors

Remuneration of Directors is reviewed by the remuneration and evaluation committee of the Company (the "**Remuneration and Evaluation Committee**") and determined by the Board based on criteria such as qualification, working experience, working performance, positions and market conditions.

8. Training for Directors and Joint Company Secretaries

(1) Training for Directors

All Directors always attend to the Directors' duties and personal integrity, and the business activities and developments of the Company. In 2016, the Directors had been updated on a monthly basis with information relating to the performance, state of affairs and prospects of the Company. In addition, the Company provided Directors with the latest developments in the Listing Rules and other applicable regulatory regulations, to make sure the Directors were able to keep making contribution to the Board with extensive information and appropriate expertise.



A newly-appointed Director will be provided with a necessary introduction package designed for him/her, including meeting with Senior Management, so that he/she will have a deep understanding of the Group's business, strategy, major risks and problems and future development plan.

For the year ended 31 December 2016, the Company carried out various trainings for the Directors and management of the Company:

1. training for newly-appointed Directors provided by Kirkland & Ellis, the legal advisor of the Company as to Hong Kong laws, in August 2016 ("**Training for newly-appointed Directors**"); and

2. compliance training for Hong Kong public company provided by Kirkland & Ellis, the legal advisor to the Company as to Hong Kong laws, in December 2016 ("**Compliance Training**").

In 2016, all Directors attended the continuous professional development programme, developed and refreshed their knowledge and skills to ensure that they continue contributing to the Board with complete information and as needed.

Trainings received by all Directors during the year 2016 are as follows:

Name	Position	Training topics
JIN Yaohua	Chairman of the Board and non-executive Director	Compliance Training
LIU Chuandong	Non-executive Director	Compliance Training
LIU Guangming	Non-executive Director	Training for newly-appointed Directors and Compliance Training
LIANG Yongpan	Non-executive Director	Training for newly-appointed Directors and Compliance Training
DENG Xiandong	Executive Director and general manager	Compliance Training
LU Shengli	Executive Director and deputy general manager	Compliance Training
YE Xiang	Independent non-executive Director	Compliance Training
MAO Zhuanjian	Independent non-executive Director	Compliance Training
GAO Jiaxiang	Independent non-executive Director	Training for newly-appointed Directors and Compliance Training

(2) *Training for Joint Company Secretaries*

During the Reporting Period, the Company appointed Mr. HU Xiaodong as the Joint Company Secretary in August 2015. In compliance with Rule 3.29 of the Listing Rules, Mr. HU Xiaodong, the Joint Company Secretary, had undertaken relevant profession trainings of not less than 15 hours for the year ended 31 December 2016.

On 10 March 2017, the Company replaced Mr. HU Xiaodong with Mr. ZENG Bing as one of the Joint Company Secretaries due to work adjustment. For details, please refer to the announcement of the Company dated 10 March 2017 with respect to change of Senior Management, Joint Company Secretary and authorised representative. In compliance with Rule 3.29 of the Listing Rules, Mr. ZENG Bing, the Joint Company Secretary, will undertake relevant professional trainings of not less than 15 hours for the year ending 31 December 2017.

The Company appointed Ms. WONG Sau Ping (senior manager of the Listing Services Department of TMF Hong Kong Limited) as one of the Joint Company Secretaries since August 2015. In compliance with Rule 3.29 of the Listing Rules, Ms. WONG Sau Ping had undertaken no less than 15 hours of relevant profession training for the year ended 31 December 2016. Her primary internal contact in the Company is Mr. ZENG Bing.

9. Directors' liability insurance and the permitted indemnity provisions

The Company has always been in strict compliance with the principles and requirements of the Listing Rules. As at 31 December 2016, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing his duty. The Company has purchased liability insurance for Directors.

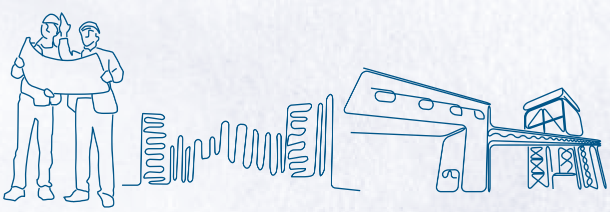
The permitted indemnity provisions of the Company are also set out in article 158 of the Articles of Association. The Directors, Supervisor, general manager of the Company and other Senior Management member may be relieved of liability for specific breaches of his duty with the informed consent of Shareholders given at a general meeting except for certain circumstances set out under article 58 of the Articles of Association.

III. PROFESSIONAL COMMITTEES UNDER THE BOARD

There are five professional committees under the Board, including the Audit Committee, Nomination Committee, Remuneration and Evaluation Committee, strategy committee of the Company (the "**Strategy Committee**") and the investment committee of the Company (the "**Investment Committee**").

1. Audit Committee

As at the Latest Practicable Date, the Audit Committee consisted of three Directors, including two independent non-executive Directors, Mr. GAO Jiaxiang and Mr. YE Xiang, and one non-executive Director, Mr. LIU Chuandong. Mr. GAO Jiaxiang currently serves as the chairman of the Audit Committee.



The primary responsibilities of the Audit Committee include, among other things, the following:

- To examine the accounting policies and practices regarding the preparation of financial statements of the Company;

- To monitor the preparation process of periodic financial reports and examine the periodic financial reports, financial results and relevant information disclosed in other announcements;

- To evaluate the effectiveness of the risk management and internal control framework, to consult with the management level regarding the scope and quality of the internal control system, and to ensure that the management level has performed its duties for ensuring the internal control system being effective, including whether the following are sufficient: the resources required, qualifications and experiences of such accounting and financial reporting staff, and the training program and budget to relevant employees;

- To examine the internal investigation results and responses from the management with respect to any and all suspected dishonest acts, non-compliance incidents, absence of internal control or suspected violation of laws, regulations and rules;

- To inspect and monitor the scope, effectiveness and results of the functions of internal examination and verification, to ensure the mutual coordination between the internal and the external auditor(s), and to ensure that the functions of internal examination and verification can be provided with sufficient resources and are in appropriate position within the Group;

- To investigate the financial and accounting policies and practices of the Group;

- To consult with the external auditor(s) for examining and verifying any recommendations arising from audit works to review such management proposal regarding the status of examination and verification whereas such proposal was proposed by auditor(s) to the management level; to check any material questions regarding the accounting record, financial account or control system put forward to the management level by the accounting firm, the feedback of the management level or other correspondence documents; and to ensure effective communication between the independent accountants and the management;

- To ensure that the Board can timely response to the issues to be put forward in the management proposal prepared by the external auditor(s);

- To understand the internal control and related process implemented by the management and guarantee that such financial reports and statements obtained from the existing financial system are in compliance with the relevant standards and requirements and are examined, verified and approved by the management;

- To check and examine the following arrangements made by the Company: the employees of the Company may secretly raise concerns in relation to possible occurrence of inappropriate actions in respect of financial reporting, internal control or other aspects; to ensure that appropriate arrangements will be made to conduct fair and independent investigation and appropriate action will be adopted regarding such matters; and

- To report the Board regarding the matters concerning the provisions of the Code.

During the Reporting Period and as at the Latest Practicable Date, the Audit Committee held one meeting, details of which are set out as follows:

- The first meeting of the first session of the Audit Committee was held on 24 March 2017, at which resolutions, among others, regarding (1) the Company's 2016 annual results announcement and the annual report; (2) final financial accounts of the Company for 2016; (3) final budget report of the Company for 2017; (4) the profit and dividend distribution plan of the Company for 2016; (5) continuing connected transactions under Financial Services Agreement; (6) the re-appointments of international and domestic auditors of the Company for 2017; (7) connected transactions of the Company in 2016; (8) the 2016 report on risk management and internal control of the Company; and (9) the 2016 report on corporate governance report of the Company were considered and approved.

The record of attendance is set out as follows:

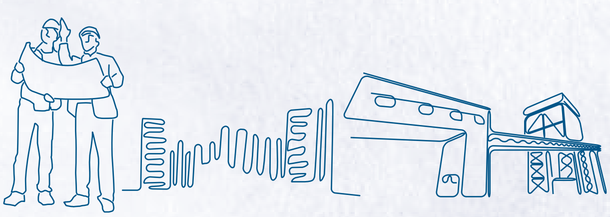
Member	**Number of attendance/ required number of attendance**
GAO Jiaxiang *(Chairman of the Audit Committee)*	1/1
YE Xiang	1/1
LIU Chuandong[(1)]	0/1

Note:

(1) Mr. LIU Chuandong did not attend the meeting as he was on a business trip and he authorised Mr. LIU Guangming as his proxy to attend and vote at the meeting.

2. Nomination Committee

As at the Latest Practicable Date, the Nomination Committee consisted of three Directors, including, Mr. JIN Yaohua, the Chairman and non-executive Director, and two independent non-executive Directors, Mr. GAO Jiaxiang and Mr. MAO Zhuanjian. Mr. JIN Yaohua currently serves as the chairman of the Nomination Committee.



The main duties of the Nomination Committee include, among other things, the following:

- To put forward a proposal regarding the structure of the Board, its scale and constitution (including technique, knowledge and experience) to the Board based on the Company's operational activities, asset scale and equity structure;

- To study the standards and procedures for the selection of Directors and Senior Management members, and to put forward relevant proposals to the Board;

- To extensively search for candidates qualified for Directors and Senior Management members;

- To investigate the candidates for Directors and the candidates for Senior Management members and propose relevant proposals;

- To review and make recommendations on the appointment of other Senior Management member that needs to be brought to the attention of the Board;

- To evaluate the independence of independent non-executive Directors; and

- To propose proposals regarding the appointment or re-appointment of Directors, and the succession plan of Directors (and in particular the chairman and the chief executive) to the Board.

During the Reporting Period and as at the Latest Practicable Date, the Nomination Committee held two meetings, details of which are set out as follows:

- The first meeting of the first session of the Nomination Committee was held on 10 March 2017, at which the resolutions regarding the appointment and resignation of certain Senior Management and the change of one of the Joint Company Secretaries and authorised representatives of the Company were considered and approved.

- The second meeting of the first session of the Nomination Committee was held on 24 March 2017, at which the resolutions, among others, regarding the composition of the Board, the independence of independent non-executive Directors and the implementation of Board Diversity Policy were considered and approved.

The record of attendance is set out as follows:

Member	**Number of attendance/ required number of attendance**
JIN Yaohua *(Chairman of the Nomination Committee)*	2/2
GAO Jiaxiang	2/2
MAO Zhuanjian	2/2

3. Remuneration and Evaluation Committee

As at the Latest Practicable Date, the Remuneration and Evaluation Committee consisted of three Directors, including two independent non-executive Directors, Mr. YE Xiang and Mr. MAO Zhuanjian, and one executive Director, Mr. DENG Xiandong. Mr. YE Xiang currently serves as the chairman of the Remuneration and Evaluation Committee.

The main duties of the Remuneration and Evaluation Committee include, among other things, the following:

- With respect to the policy and structure of remuneration regarding the Directors and Senior Management members and the establishment of such official and transparent procedures for formulating such remuneration policies, to propose a proposal to the Board;

- To investigate and approve the proposal on the remuneration of the Senior Management based on the corporate principles and goals set by the Board;

- To determine the specific remuneration of all executive Directors and Senior Management members, including but not limited to basic salary, warrant and non-monetary interests, pension and bonus, and indemnified amount (including the indemnification for the loss or termination of position or appointment);

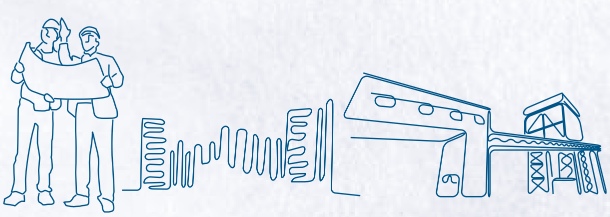
- To propose proposals to the Board regarding the remuneration of non-executive Directors;

- To take consideration of the remuneration paid by similar companies, such time required to be spent by the Directors, scope of duties of the Directors, employment conditions for other positions within the Group, and whether the remuneration shall be determined based on the performance thereof;

- To investigate and approve such compensation required to be paid to executive Directors and Senior Management members due to the loss or termination of their positions or appointment, in order to ensure that such compensation shall be determined pursuant to the relevant contractual terms. Should such determination fails to be made pursuant to the relevant contractual terms, such compensation should be fair and reasonable and should not be too much;

- To investigate and approve such compensation arrangements involving the termination of employment or dismissal of the relevant Directors due to the inappropriate act of such Directors, in order to ensure that such arrangements shall be determined pursuant to the relevant contractual terms. Should such determination fails to be made pursuant to the relevant contractual terms, such relevant compensation should be fair and appropriate;

- To ensure that no Directors nor any associates would determine their own remuneration by themselves;



- To investigate the performance of duties by Directors (non-independent Directors) and Senior Management members and evaluate the annual performance appraisal regarding such Directors and Senior Management officers; and

- To study Share incentive schemes.

During the Reporting Period and as at the Latest Practicable Date, the Remuneration and Evaluation Committee held one meeting, details of which are set out as follows:

- The first meeting of the first session of the Remuneration and Evaluation Committee was held on 24 March 2017, at which the resolutions, among others, regarding (1) the assessment and incentive for the work of operation management team in the year of 2016, and (2) the remuneration policy of Directors and Senior Management were considered and approved.

The record of attendance is set out as follows:

Member	**Number of attendance/ required number of attendance**
YE Xiang *(Chairman of the Remuneration and Evaluation Committee)*	1/1
MAO Zhuanjian	1/1
DENG Xiandong	1/1

4. Strategy Committee

As at the Latest Practicable Date, the Strategy Committee consisted of three Directors, including one executive Director, Mr. DENG Xiandong, and two non-executive Directors, Mr. LIU Guangming and Mr. LIANG Yongpan. Mr. DENG Xiandong currently serves as the chairman of the Strategy Committee.

The main duties of the Strategy Committee include, among other things, the following:

- To study the long-term development strategy and planning and propose relevant proposals of the Company;

- To study the material investment financing proposals required to be approved by the Board pursuant to the Articles of Association and to propose relevant proposals;

- To study such material capital operation and asset operational projects that are required to be approved by the Board pursuant to the Articles of Association and to propose relevant proposals;

- To study the material issues that may impact the Company's development and propose relevant proposals; and

- To carry out examination and checking over the above-mentioned items.

During the Reporting Period and as at the Latest Practicable Date, the Strategy Committee held one meeting, details of which are set out as follows:

- The first meeting of the first session of the Strategy Committee was held on 24 March 2017, at which the resolution, among others, regarding continuing connected transactions of financial services agreement was considered and approved.

The record of attendance is set out as follows:

Member	Number of attendance/ required number of attendance
DENG Xiandong *(Chairman of the Strategy Committee)*	1/1
LIU Guangming	1/1
LIANG Yongpan	1/1

5. Investment Committee

As at the Latest Practicable Date, the Investment Committee consisted of three Directors, including two independent non-executive Directors, Mr. MAO Zhuanjian and Mr. YE Xiang, and one executive Director, Mr. DENG Xiandong. Mr. MAO Zhuanjian currently serves as the chairman of the Investment Committee.

The main duties of the Investment Committee include, among other things, the following:

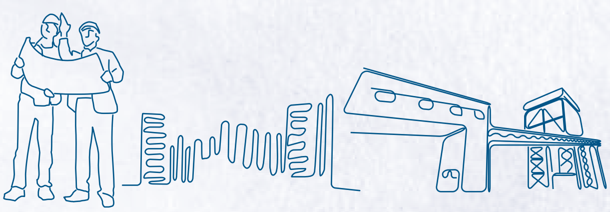
- To conduct research on and make recommendation for the annual investment plan of the Company;

- To consider and approve the investment strategies, investment risk management system, investment project assessment system and other relevant systems or policies in relation to relevant investment management of the Company;

- To consider and approve and make decision on the investment projects within the scope as authorized by the Board;

- To conduct research on and make recommendation for significant investment projects subject to the approval of the Board and the general meeting as required by the Articles of Association; and

- To monitor the implementation of investment projects and report to the Board.



During the Reporting Period and as at the Latest Practicable Date, the Investment Committee held one meeting, details of which are set out as follows:

- The first meeting of the first session of the Investment Committee was held on 24 March 2017, at which the resolution regarding the investment plan of the Company for the year of 2017 was considered and approved.

The record of attendance is set out as follows:

Member	**Number of attendance/ required number of attendance**
MAO Zhuanjian *(Chairman of the Investment Committee)*	1/1
YE Xiang	1/1
DENG Xiandong	1/1

IV. SUPERVISORY COMMITTEE

As at the Latest Practicable Date, the Supervisory Committee comprised three Supervisors, one of whom is an employee representative Supervisor, including Mr. WANG Yuanchun, Mr. LIU Liming and Mr. LIU Jianxiang. Mr. WANG Yuanchun currently serves as the chairman of the Supervisory Committee and Mr. LIU Jianxiang is the employee representative Supervisor, who replaced Mr. WANG Hongjin, former employee representative Supervisor, since 18 January 2017.

The functions and duties of the Supervisory Committee include but not limited to reviewing the Company's financial reports, supervising the performance of the Company's duties of the Directors and Senior Management and proposing the dismissal of the Directors and Senior Management who are in breach of laws and regulations, the Articles of Association or the resolutions of the general meeting, requiring Directors, the general manager of the Company and other Senior Management to rectify any actions which impair the interests of the Company, proposing to convene the extraordinary general meetings, convening and presiding over the Shareholders' general meeting in the event that the Board fails to perform its duties to convene and preside over the Shareholders' general meetings, putting forward proposals to the Shareholders' general meetings and reviewing the periodic report formulated by the Board and putting forward written opinions on audit.

Each term of office of a Supervisor is three years and he/she may serve consecutive terms if re-elected. A Supervisor shall continue to perform his/her duties in accordance with the laws, administrative regulations and the Articles of Association until a duly re-elected Supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of Supervisors results in the number of Supervisors being less than the quorum.

During the Reporting Period and as at the Latest Practicable Date, the Supervisory Committee held two meetings, details of which are set out as follows:

- The third meeting of the first session of the Supervisory Committee was held on 29 April 2016, at which resolutions, among others, regarding (1) the report of the Supervisory Committee of the Company for the year of 2015, (2) the financial report of the Company for the year of 2015, (3) the financial budget plan of the Company for the year of 2016, and (4) the profit distribution plan of the Company for the year of 2015 were considered and approved.

- The fourth meeting of the first session of the Supervisory Committee was held on 24 March 2017, at which resolutions, among others, regarding (1) the report of the Supervisory Committee for 2016; (2) the Company's 2016 annual results announcement and the annual report; (3) final financial accounts of the Company for 2016; (4) final budget report of the Company for 2017; (5) the profit and dividend distribution plan of the Company for 2016; (6) continuing connected transactions under financial services agreement; (7) the re-appointments of international and domestic auditors of the Company for 2017; (8) the assessment and incentive for the work of operation management team in 2016; (9) connected transactions of the Company in 2016; (10) the 2016 report on risk management and internal control of the Company; (11) report on the use of proceeds of the Company; and (12) the remuneration of Supervisors for 2017 were considered and approved.

The record of attendance is set out as follows:

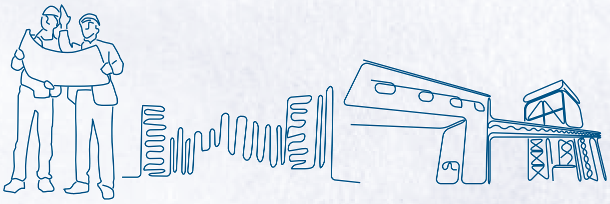
Member	**Number of attendance/ required number of attendance**
WANG Yuanchun *(Chairman of the Supervisory Committee)* (1)	1/2
LIU Liming	2/2
LIU Jianxiang *(Appointed in January 2017)* (2)	1/1
WANG Hongjin *(Resigned in January 2017)* (3)	1/1

Notes:

(1) Mr. WANG Yuanchun did not attend one of the meetings as he was on a business trip and he authorised Mr. LIU Liming as his proxy to attend and vote at such meeting.

(2) Mr. LIU Jianxiang has been appointed as an employee representative Supervisor with effect from 18 January 2017, therefore, he only attended the Supervisory Committee meeting held after his appointment. For details, please refer to the announcement of the Company dated 18 January 2017 with respect to change of employee representative Supervisor.

(3) Mr. WANG Hongjin resigned as an employee representative Supervisor with effect from 18 January 2017, therefore, he did not attend the Supervisory Committee meeting held after his resignation. For details, please refer to the announcement of the Company dated 18 January 2017 with respect to change of employee representative Supervisor.



V. DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board has acknowledged its responsibility for preparing the financial statements of the Group for the year ended 31 December 2016. The Directors consider that the Group has adequate resources to continue in business for the foreseeable future, and are not aware of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. The Board is responsible for presenting a clear and understandable assessment of the annual and interim reports, inside information, price sensitive information and other disclosures as required under the Listing Rules and other regulatory requirements. The management of the Company has provided such explanation and information to the Board as necessary to enable the Board to make an assessment of the financial information and status of the Group before giving its approval. The Group is not exposed to any material uncertainty that may exert significant impact on the Group's ability to continue as a going concern.

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

The Group has adopted the Model Code as the code of conduct for dealing in the securities of the Company by the Directors, Supervisors and relevant employees (as defined in the Model Code). According to the specific enquiries of the Directors and Supervisors, each Director and Supervisor confirmed that he had strictly complied with the standard set out in the Model Code during the Reporting Period.

The Board will examine the corporate governance practices and operation of the Group from time to time to ensure that the Group is in compliance with relevant requirements under the Listing Rules and that the Shareholders' interests are safeguarded.

VII. RISK MANAGEMENT AND INTERNAL CONTROL

The Company has established complete and stable risk management and internal control systems, and has formulated a series of rules to ensure that the Company's risk management and internal control work are institutionalized and systematic. The Company has 12 functional departments responsible for works including financial operation and monitoring, risk management, internal audit and anti-fraud. The Company has set up the comprehensive risk management leading group and office, which are responsible for risk management and internal control related work. The Company also establishes full-time risk management positions. The general manager of the Company holds the post of the group leader.

The Company and its subsidiaries carry out risk assessment at the beginning of each year, set risk prevention and control objectives, revise risk assessment standards, collect risk management information, identify key risk sources, assess risk levels, develop risk prevention strategies and improve measures for significant risks, and carry out by the functional departments. The Company focuses on the prior control of major risks, and actively carried out comprehensive risk management. To strengthen internal control, the Company establishes and improves the normalization mechanism of risk assessment, and establishes special risk assessment system for important matters such as significant domestic and foreign investment, major capital operation and management matters and large amount of capital use. The Company has formulated the "Information Disclosure Management System", which stipulates the duties and obligations of various departments in the process of internal information processing, the procedures for the disclosure of periodic reports and interim reports, and the confidential measures and corresponding responsibilities.

The Board is responsible for maintaining an adequate risk management and internal control systems to safeguard Shareholders' investments and Company's assets and with the support of the Audit Committee, reviewing the effectiveness of such systems on an annual basis. The risk management and internal control systems are designed to identify, assess and report on potential risks and implement control measures, to mitigate rather than to completely eliminate the risks associated with achieving our business objectives. These systems provide a reasonable but not absolute assurance against material misstatement or loss.

During the Reporting Period, the Board, through the Audit Committee, reviewed the effectiveness of the risk management and internal control systems of the Group, including financial control, operation control, compliance control, and risk management systems, and was not aware of any material problems or any material mistakes. The Board believes that the current monitoring systems of the Company are effective and that the qualifications and experience of the staff, performing accounting and financial reporting functions and the training programmes of the Company as well as the experiences and resources for setting the budget of the Company are adequate.

VIII. AUDITORS' REMUNERATION

Ernst & Young and Ernst & Young Hua Ming LLP (collectively, "**Ernst & Young**") were appointed as international and domestic auditors of the Company to audit the financial statements of the Company for the year ended 31 December 2016 prepared in accordance with IFRSs and the PRC GAAP, respectively. Aggregate fees in respect of audit and audit-related services provided by Ernst & Young payable by the Company during the year ended 31 December 2016 were RMB6.30 million.

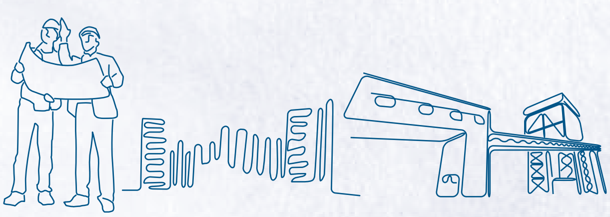
During the year of 2016, non-audit services provided by Ernst & Young include internal control evaluation service at a charge of RMB0.47 million.

IX. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

A formal and transparent procedure for fixing the remuneration packages of individual Directors, Supervisors and Senior Management is in place. The Remuneration and Evaluation Committee is responsible for formulating and reviewing the remuneration policies and plans of the Directors, Supervisors, the general manager of the Company and other Senior Management and shall be accountable to the Board. Details of the remuneration for Directors and top five persons in respect of remuneration are set out in Notes 8, 9 and 32(d) to the financial statements in this annual report. For the year ended 31 December 2016, the scope of remuneration for the Senior Management is set out below:

Scope of remuneration *(RMB'000)*	**Number of member of Senior Management**
0-500	8
500-1,000	1

Note: Numbers disclosed above includes the Senior Management and those who are executive Directors.



X. SHAREHOLDERS' GENERAL MEETING

During the Reporting Period and as at the Latest Practicable Date, the Company held a total of one Shareholders' general meetings, with attendance of Directors as follows:

Name	Position	Number of attendance/ number of the meeting
JIN Yaohua	Chairman of the Board and non-executive Director	1/1
LIU Chuandong	Non-executive Director	1/1
LIU Guangming	Non-executive Director	1/1
LIANG Yongpan	Non-executive Director	1/1
DENG Xiandong	Executive Director and general manager	1/1
LU Shengli	Executive Director and deputy general manager	1/1
YE Xiang	Independent non-executive Director	1/1
MAO Zhuanjian	Independent non-executive Director	1/1
GAO Jiaxiang	Independent non-executive Director	1/1

XI. COMMUNICATION WITH SHAREHOLDERS

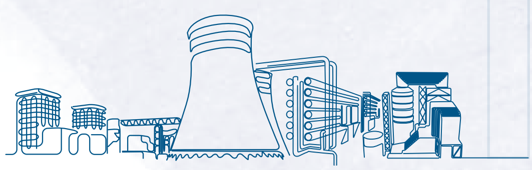
The Company highly appreciated Shareholders' opinions and advice, actively organised various investor relations activities to maintain connections with Shareholders and made timely responses to the reasonable requests of Shareholders.

1. Shareholders' rights

The Board is committed to communicating with Shareholders and makes disclosure in due course about the Company's major developments to Shareholders and investors of the Company. The general meeting of the Company provides Shareholders and the Board with good communication opportunities. Notices on convening general meetings are dispatched to all Shareholders at least 45 clear days prior to the general meeting.

The Company's general meetings include annual general meetings, which are held once each year within 6 months from the close of the preceding financial year, and extraordinary general meetings, which are convened in compliance with the Articles of Association and whenever the Board considers appropriate. Shareholders, individually or jointly, holding a total of more than 10% (inclusive) of the Company's issued and outstanding Shares carrying voting rights are entitled to requests in writing for convening an extraordinary general meeting. And such meetings shall be held within 2 months after the requisition is presented.

Shareholders who wish to put forward proposals during the general meeting may raise their hands and speak in order of registration at any time after the resolutions to be considered at the meeting are announced. The Directors, Supervisors and members of Senior Management shall respond to the questions and suggestions from Shareholders.



The Chairman and the chairmen of all committees under the Board (or, in whose absence, other members of the committees) will answer question(s) at the general meetings. Pursuant to the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Poll results are deemed resolutions of the meeting.

The Board encourages Shareholders to attend general meetings to communicate directly concern(s) they may have with the Board or the management of the Company. Shareholders holding 3% or more of the Company's Shares with voting right have the right to put up ad hoc proposals in writing to the Company, and the Company shall include such ad hoc proposals into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting. The ad hoc proposals raised by Shareholders shall satisfy the following requirements: (i) free of conflicts with the provisions of laws and regulations, and fall into the terms of reference of the general meeting; (ii) with definite topics to discuss and specific matters to resolve; and (iii) submitted or served to the Board in writing 10 days prior to the date of the general meeting.

Detailed voting procedures and resolutions being voted on by way of poll are contained in the circulars dispatched to Shareholders.

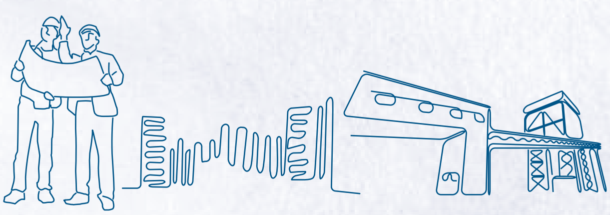
2. Shareholders' inquiries

If you have any query in connection with your shareholdings, including Shares transfer, change of address or wish to report loss of Shares or dividend warrant, please write to or contact the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at:

Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel: (852) 2862-8555
Fax: (852) 2865-0990
Website: www.computershare.com.hk

3. Investor relations and communications

The Company set up a website at **www.dteg.com.cn**, as a channel to promote communication, publishing announcements, financial information and other relevant information of the Company. Shareholders are welcome to make enquiries directly to the Company at its principal place of business in Hong Kong. The Company will deal with all enquiries in a timely and appropriate manner. The primary contact of the Company is Mr. WANG Xiaofeng at (email: ir@dteg.com.cn or tel: +86 10 5838 9858).



XII. CHANGE OF CONSTITUTIONAL DOCUMENTS

On 21 August 2015, the Company passed a resolution to approve and adopt the new Articles of Association, which were effective on the Listing Date. On 16 December 2016, pursuant to the authorisation under the fourth extraordinary general meeting of the Company, the Board made amendments to the then applicable Articles of Association. Both of the two aforementioned versions of Articles of Association have been published on the website of the Stock Exchange. Save for the above, the Company has not made any significant changes to the Articles of Association during the Reporting Period.

XIII. SIGNIFICANT SUBSEQUENT EVENT

Reference is made to the announcement of the Company dated 24 April 2017 with respect to a connected transaction of the Company. On 24 April 2017, the Company and Datang Finance entered into a financial services agreement (the "**Financial Services Agreement**"), pursuant to which Datang Finance will provide to the Company financial services, including loan services, deposit services and other financial services for a term commencing from the effective date and ending on 31 December 2019. As Datang Finance is a non-wholly owned subsidiary of China Datang, the Controlling Shareholder, it is a connected person of the Company and therefore, transactions under the Financial Services Agreement will constitute continuing connected transactions of the Company. The loan services are exempt from announcement, circular and independent shareholders' approval requirements in accordance with Rule 14A.90 of the Listing Rules. The other financial services are exempt from announcement, circular and independent shareholders' approval requirements in accordance with Rule 14A.76 of the Listing Rules. The deposit services are subject to announcement, circular, independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Financial Services Agreement is subject to the approval by independent shareholders at the 2016 AGM. For details, please refer to the announcement of the Company dated 24 April 2017 and the 2016 AGM circular of the Company to be dispatched in due course.

Reference is made to the announcement of the Company dated 19 April 2017 with respect to amendments to the Articles of Association. The Company proposed certain amendments to the Articles of Association according to the requirements of the "Notice of Accelerating the Inclusion of General Provisions into the Articles of Association of Central Level State-Owned Enterprises for Party Building" (《關於加快推進中央企業黨建工作總體要求納入公司章程有關事項的通知》) (Guo Zi Dang Wei Dang Jian [2017] No. 1) and the provisions of Company Law of the PRC. For details of the amendments, please refer to the 2016 AGM circular of the Company to be dispatched in due course. The effectiveness of such amendments is subject to Shareholders' approval at the 2016 AGM.

Save as disclosed above, the other significant subsequent events occurred after 31 December 2016 are set out in Note 36 to the financial statement in this annual report.

Investor Relations

I. EVENTS RELATING TO INVESTOR RELATIONS IN 2016

1. Investors' routine visits

From the Listing Date to the Latest Practicable Date, the Group always gave detailed answers to the queries raised by investors and analysts in compliance with the information disclosure rules. As at the end of 2016, the Company had adequate communications and exchange of ideas with investors and analysts from a number of institutions via meetings, telephone calls, emails and WeChat.

2. Participation in investment summits

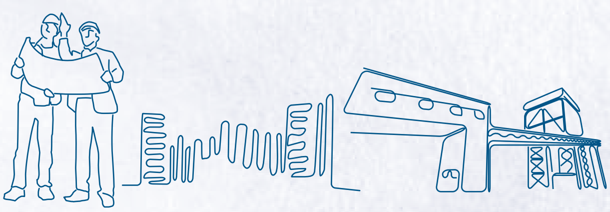
From the Listing Date to the Latest Practicable Date, the Group actively participated in major summits and investment forums in the PRC and Hong Kong organised by world-famous investment banks, at which we had one-on-one or group meetings to promote in-depth communication with important global investors.

3. Results briefings

From the Listing Date to the Latest Practicable Date, the Company published its 2016 annual results. In March 2017, the management of the Company visited Hong Kong to hold a road show for 2016 annual results, organised a press conference, and ten one-on-one meetings with investors.

II. OUTLOOK FOR MANAGEMENT OF INVESTOR RELATIONS IN 2017

In 2017, the Company will focus more on demands of investors and analysts, pay close attention to important policies of the environmental protection and energy conservation industry, timely make public disclosable information and continuously improve the timeliness and completeness of data disclosure to provide the public with timely access to complete business information.



In 2016, all members of the Supervisory Committee have earnestly performed their supervisory functions to safeguard the rights and interests of the Group and the Shareholders in accordance with the Company Law, the Company Law, the Articles of Associations, the Rules of Procedures of the Supervisory Committee and the relevant provisions in the Listing Rules.

I. CHANGES IN COMPOSITION

In January 2017, Mr. WANG Hongjin resigned as an employee representative Supervisor of the Company (the "**Employee Representative Supervisor**") with effect from 18 January 2017 due to work adjustment. Mr. LIU Jianxiang has been elected and appointed as the new Employee Representative Supervisor at the employee representative meeting of the Company held on 18 January 2017 to replace Mr. WANG Hongjin and as a member of the Supervisory Committee, with effect from 18 January 2017. For details, please refer to the announcement of the Company dated 18 January 2017 with respect to resignation and appointment of Employee Representative Supervisor.

II. MEETINGS OF THE SUPERVISORY COMMITTEE

During the Reporting Period and as at the Latest Practicable Date, the Supervisory Committee held two meetings, details of which are set out as follows:

- The third meeting of the first session of the Supervisory Committee was held on 29 April 2016, at which resolutions, among others, regarding (1) the report of the Supervisory Committee for the year of 2015, (2) the financial report of the Company for the year of 2015, (3) the financial budget plan of the Company for the year of 2016, and (4) the profit distribution plan of the Company for the year of 2015 were considered and approved;

- The fourth meeting of the first session of the Supervisory Committee was held on 24 March 2017, at which resolutions, among others, regarding (1) the report of the Supervisory Committee for 2016; (2) the Company's 2016 annual results announcement and the annual report; (3) final financial accounts of the Company for 2016; (4) final budget report of the Company for 2017; (5) the profit and dividend distribution plan of the Company for 2016; (6) continuing connected transactions under financial services agreement; (7) the re-appointments of international and domestic auditors of the Company for 2017; (8) the assessment and incentive for the work of operation management team in 2016; (9) connected transactions of the Company in 2016; (10) the 2016 report on risk management and internal control of the Company; (11) report on the use of proceeds of the Company; and (12) the remuneration of Supervisors for 2017 were considered and approved.

III. PRINCIPAL INSPECTION AND SUPERVISION WORK OF THE SUPERVISORY COMMITTEE IN 2016

1. Members of the Supervisory Committee carried out supervision and inspection of the financial position of the Company and its risk management and internal control systems such as the financial management system, including regular inspections of the financial reports and financial budgets and irregular reviews of accounting documents and books of the Company.

2. Members of the Supervisory Committee attended all general meetings and Board meetings without voting rights during the Reporting Period, exercising supervision in respect of the lawfulness and compliance of the procedures of the matters considered by the Board meetings.

3. The Supervisory Committee made no objection to the reports and motions tabled at the general meetings and were convinced that the Board had faithfully implemented the resolutions approved by the general meetings.

IV. INDEPENDENT OPINIONS ISSUED BY THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS

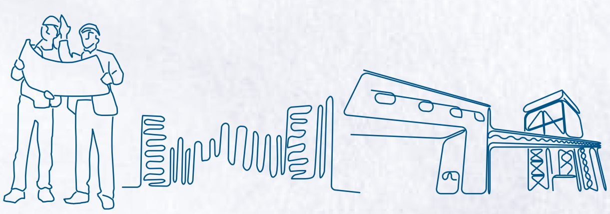
1. Operation and management of the Company

During the Reporting Period, the Company made conspicuous achievements, including successfully being listed on the Main Board of the Stock Exchange, winning excellent prizes in the 10th Vocational Skills Competition of the PRC Power Industry. The management of the Company attached great importance to safety management and ensured smooth situation in production safety; actively promoted technological innovation and achieved a series of research outcomes; vigorously developed external markets and expanded client bases significantly; continuously improved the level of management in core business. The management of the Company faithfully fulfilled their duties and responsibilities as stipulated in the Articles of Association and earnestly implemented the resolutions approved by the Board.

2. Financial matters of the Company

Members of the Supervisory Committee monitored and examined the financial management system and the financial condition and reviewed relevant financial information of the Company. Upon examination, the Supervisory Committee concluded that the Company had complied with the relevant financial laws, regulations and financial policies, and that the financial management system was sound and implemented effectively; the accounting treatment was in line with the consistency principles; and the Company's financial reports gave an objective and fair view of the financial position and operating results of the Company.

The Supervisory Committee reviewed the standard and unmodified audit opinion issued by Ernst & Young in respect of the consolidated financial statements of the Group for the year ended 31 December 2016 prepared in accordance with IFRSs, and raised no objection to such reports.



3. Connected transactions

The Supervisory Committee reviewed the connected transactions between the Group and its respective connected persons during the Reporting Period, and was of the opinion that all the connected transactions complied with the relevant requirements of the Stock Exchange and other applicable laws, and that the pricing of the connected transactions was reasonable, open and fair and there was not any matter prejudicial to the interests of the Company or Shareholders as a whole.

4. Implementation of the resolutions of general meetings

The Supervisory Committee considered that the Board earnestly implemented the resolutions approved by the general meetings; the Company further perfected and improved various risk management and internal control mechanisms; that the Company disclosed significant information about the Company in a timely manner pursuant to the securities regulatory requirements such that the information was disclosed in a regulated manner and the securities trading system for the informed parties of insider information was conducted well; that the Directors and Senior Management were able to implement conscientiously and thoroughly relevant laws and regulations, the Articles of Association and the resolutions of the general meetings and the Board during the execution of the duties of the Company in a faithful, pioneering and aggressive manner; and that no Directors or Senior Management were found to have acts which violated laws, regulations or the Articles of Association or harmed the interests of the Company and the rights or interests of Shareholders during the execution of their duties.

5. Internal control of the Company

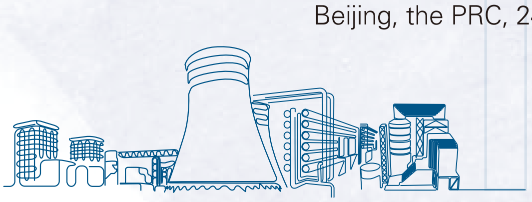
The Supervisors Committee made a special explanation of the Company's internal control. It was of the view that the Company abode by the basic principle of internal control based on its development strategies and regulatory requirements, and further improved the risk management and internal control systems in line with its own actual situation to so that the Company was able to give a reasonable assurance that the internal control objective would be achieved. In addition, the Company has established a complete internal control organizational structure to ensure that its risk management and internal control systems will be monitored and implemented effectively and its control and management capability will continue to increase.

6. Use of proceeds by the Company

The Supervisors Committee monitored the utilization of the proceeds by the Company. It was of the view that the Company was able to manage and utilize the proceeds in accordance with the applicable laws and regulations as well as the commitments made by it in the Prospectus. The Supervisors Committee will continue to oversee and inspect the utilization of the proceeds.

By order of the Supervisory Committee
Wang Yuanchun
Chairman of the Supervisory Committee

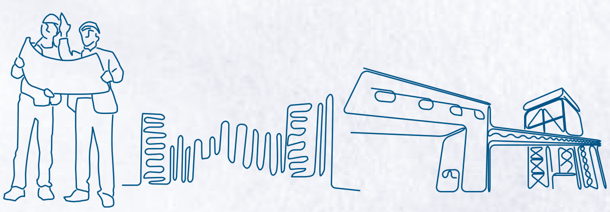
Beijing, the PRC, 24 March 2017



I. NON-EXECUTIVE DIRECTORS

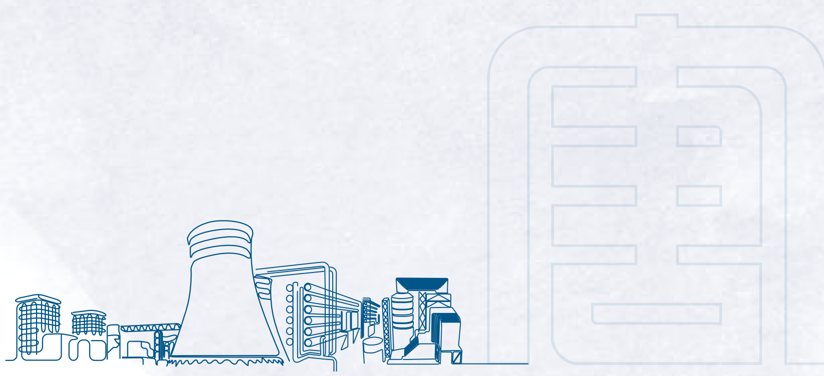
Mr. Jin Yaohua (金耀華)

aged 56, is the chairman of the Board and a non-executive Director. Mr. Jin had approximately 20 years of working experience in the power industry. Before joining the Company, Mr. Jin successively served as the technician, engineer, deputy director, director, and secretary of Communist Party Branch at the Thermal Workshop of Huabei Power (華北電力試驗所) from August 1982 to January 1994. He then worked in the Science Research Institute of Huabei Power (華北電力科學研究院) serving successively as the deputy secretary of the Communist Party Committee, vice dean and deputy secretary from January 1994 to September 1996. Mr. Jin was the secretary of the Communist Party Committee and deputy manager of Zhangjiakou Power Plant (張家口發電廠) from September 1996 to February 1998; and he was the manager of Qinghuangdao Thermal Power Plant (秦皇島熱電廠) from February 1998 to November 1999. Between November 1999 and January 2003, Mr. Jin successively served as the deputy chief engineer, chief engineer and deputy general manager of Beijing Datang Power Generation Co., Ltd. (北京大唐發電股份有限公司). Mr. Jin held various positions at China Datang from January 2003 to August 2011, including the director of the safety production department, deputy chief engineer and chief engineer; and he has been serving as the deputy general manager of China Datang commencing from August 2010. From April 2010 to August 2014, Mr. Jin served as the director of Datang Huayin (a company listed on the Shanghai Stock Exchange, stock code: 600744). Mr. Jin obtained a bachelor's degree in thermal surveying and automation of power plants at the School of Water Resources and Electric Power of Wuhan University (武漢水利電力學院) in 1982. Mr. Jin was recognized as a senior engineer by the North China Electric Power Administration Bureau (華北電業管理局) in October 1992.



Mr. Liu Chuandong (劉傳東)

aged 54, is a non-executive Director. Mr. Liu had more than 30 years of experience in financial management in the power industry. Prior to joining the Company, Mr. Liu served successively as the person in charge of the Youth League Committee, deputy director (in charge) of the finance department, deputy chief accountant and head of the finance department of Shandong Jining Power Plant (山東濟寧發電廠) from July 1981 to March 1996. From March 1996 to November 1997, Mr. Liu worked as the head of the accounting and audit division of the finance department and the deputy director of the finance department at Shandong Electric Power Industry Bureau (山東省電力工業局). He was the chief accountant at Jinan Yingda International Trust Co., Ltd. (濟南英大國際信託投資公司) from November 1997 to September 1999; the chief accountant and member of the Communist Party Committee of Shandong Power Generation Company (山東電力發電公司) from September 1999 to December 2001; and the deputy chief accountant at Shandong Branch of Huaneng Power International Inc. (華能國際電力股份有限公司山東分公司) from December 2001 to May 2003. During the periods from May 2003 to June 2006, July 2008 to April 2011, and May 2012 to January 2014, Mr. Liu successively served as the senior officer of property and capital at the finance and property management department, deputy director of fund settlement and management center, deputy director of finance and property management department, and director of fund settlement and management center at China Power Investment Corporation (中國電力投資集團公司). Mr. Liu worked for CPI Financial Co., Ltd. (中電投財務有限公司) during the periods from June 2006 to July 2008 and from April 2011 to January 2014, serving successively as the deputy general manager, member of the Communist Party Committee, deputy director of fund settlement and management center, general manager and deputy secretary of the Communist Party Committee. Mr. Liu was a member of the Communist Party Committee of CPI Ronghe Holdings Investment Group Company (中電投融和控股投資有限公司) from December 2011 to January 2014; the general manager and secretary of the Communist Party Committee of China Datang Group Finance Co., Ltd. (中國大唐集團財務有限公司) from January 2014 to May 2014; and the director of the financial management department of China Datang from May 2014 to November 2015. Mr. Liu has been the secretary of the Communist Party Committee of Capital Holding since May 2014 and the chief accountant and member of the Communist Party Community of China Datang since November 2015. In addition, Mr. Liu also holds directorships in other listed companies. He served as a director of Datang Huayin (a company listed on the Shanghai Stock Exchange, stock code: 600744) from June 2015 to June 2016. Mr. Liu has been serving as a non-executive director of Datang International Power Generation Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601991; a company listed on the Stock Exchange, stock code: 991) since July 2016. Mr. Liu graduated from Shandong Electric Power School (山東電力學校) in 1981, majoring in thermal power equipment in power plants. He further graduated from the Central Party School of the Communist Party of China (中央黨校) in 2001, majoring in economics. He was also accredited as a senior accountant by the Power Industry Bureau of Shandong Province (山東省電力工業局) in February 1998.

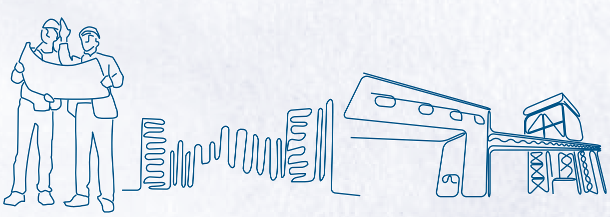


Mr. Liu Guangming (劉光明)

aged 45, is a non-executive Director. Mr. Liu has over 10 years of extensive experience in the power industry. Before joining the Company, Mr. Liu worked in China Huadian Corporation serving successively as head of directors and supervisors office and head of 2nd division of cadre management of Human Resources Department from July 2005 to February 2008. Between February 2008 and June 2010, Mr. Liu served as an assistant general manager of China Huadian Corporation Capital Holdings Limited (中國華電集團資本控股公司). He held various positions at China Huadian Corporation Finance Company Limited (中國華電集團財務有限公司) from June 2010 to May 2014, including a deputy general manager and a party member. From May 2014 to March 2016, he served as the general manager and deputy secretary of Communist Party Committee at China Datang Group Finance Co., Ltd. (中國大唐集團財務有限公司). Since March 2016, he has been serving as the head of capital operation and assets management department of China Datang. In addition, Mr. Liu also holds directorships in other listed companies. He has served as a director of Guangxi Guiguan Electric Power Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600236) since June 2016, a director of Datang Huayin (a company listed on the Shanghai Stock Exchange, stock code: 600744) since June 2016 and a non-executive director of Datang Renewable (a company listed on the Stock Exchange, stock code: 1798) since June 2016. Mr. Liu obtained a master's degree in electric power system and automation from North China Electric Power University (華北電力大學) in June 2005. He was accredited as a senior engineer by State Power Corporation of China (國家電力公司) in December 2003.

Mr. Liang Yongpan (梁永磐)

aged 51, is a non-executive Director. Mr. Liang has over 15 years of extensive experience in the power industry. Before joining the Company, Mr. Liang was a general manager and a member of Communist Party Committee of Lanzhou Xigu Thermal Power Co. Ltd. (蘭州西固熱電有限責任公司) between June 2001 and June 2004. Mr. Liang was a member of the Communist Party Committee and a deputy general manager of Datang Gansu Power Generation Co., Ltd. (大唐甘肅發電有限公司) from June 2004 to April 2008. He then served as the deputy manager of planning, investment and financing department of China Datang from April 2008 to July 2011. He was a general manager and secretary of Communist Party Committee of Datang Gansu Power Generation Co., Ltd. (大唐甘肅發電有限公司) from July 2011 to May 2014, the manager of planning and marketing department of China Datang from May 2014 to March 2016. Since March 2016, he has been serving as the head of safety production department of China Datang. In addition, Mr. Liang also holds directorships in other listed companies. He has been serving as a non-executive director of Datang International Power Generation Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601991; a company listed on the Stock Exchange, stock code: 991) since October 2014, a director of Datang Huayin (a company listed on the Shanghai Stock Exchange, stock code: 600744) since June 2015, a director of Guangxi Guiguan Electric Power Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600236) since October 2014 and a non-executive director of Datang Renewable (a company listed on the Stock Exchange, stock code: 1798) since June 2016. Mr. Liang graduated from the thermal engineering department of Chongqing University (重慶大學) in July 1988, majoring in thermal power engineering for power plants. He was accredited as a senior engineer by Gansu Electric Power Company (甘肅省電力公司) in December 1997.



II. EXECUTIVE DIRECTORS

Mr. Deng Xiandong (鄧賢東)

aged 52, has been serving as the general manager of the Company since July 2013, an executive Director since August 2013, and the vice secretary of the Communist Party Committee of the Company since January 2015, being responsible for the overall business operation and management of the Company. Mr. Deng possessed approximately 30 years of working experience in the power industry and used to be responsible for the business operation and management of various electric power enterprises. Before joining the Company, Mr. Deng worked as a specialized technician of the production division at Xia Huan Yuan Power Plant (下花園發電廠) and Zhangjiakou Power Plant (張家口發電廠) from July 1987 to March 1993, and he served as the specialized technician of the powder production workshop and deputy manager of the production technology department of Zhangjiakou Power Plant from March 1993 to December 1998. During the period from December 1998 to September 2004, he served successively as the deputy plant manager, deputy chief engineer and head of equipment division and chief engineer at Plant A of Beijing Datang Power Zhangjiakou Power Plant (北京大唐發電張家口發電廠). Moreover, Mr. Deng was the general manager of Shanxi Datang International Yungang Thermal Power Company Limited (山西大唐國際雲岡熱電有限責任公司) from September 2004 to August 2006. From August 2006 to March 2009, Mr. Deng served successively as the deputy director of the Yunnan Representative Office of China Datang, the member of Communist Party Committee, deputy general manager and deputy director of planning and development department of the Yunnan Branch of China Datang. From August 2006 to June 2007, he worked successively as the general manager, member of Communist Party Committee of the Yunnan Branch of Datang International Power Generation Co., Ltd. (大唐國際發電股份有限公司). From June 2007 to April 2008, he was the secretary of the Communist Party Committee and general manager of Yunnan Datang International Electric Power Generation Company Limited (雲南大唐國際電力有限公司). From March 2009 to July 2013, Mr. Deng served as the vice secretary and secretary of Communist Party Committee, deputy general manager (in charge) and general manager of Datang Shandong Power Generation Co., Ltd. (大唐山東發電有限公司). Mr. Deng graduated from Northeast China Institute of Electric Power (東北電力學院) and obtained a bachelor's degree in thermal power engineering for power plants in 1987. He further obtained a master's degree in power engineering at North China Electric Power University (華北電力大學) in 2004. Mr. Deng was accredited as a senior engineer by the North China Power Administration Bureau of the Ministry of Power Industry (電力工業部華北電業管理局) in September 1998.

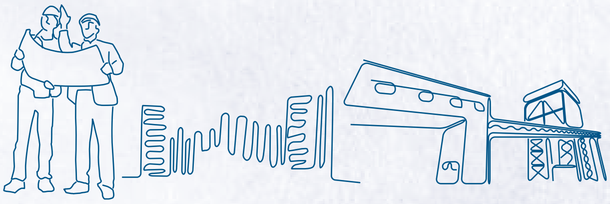
Mr. Lu Shengli (路勝利)

aged 56, was the vice secretary of Communist Party Committee of the Company and a Supervisor from December 2013 to January 2015. He has been serving as the secretary of Communist Party Committee, deputy general manager and head of the disciplinary committee of the Company since January 2015 and has been the executive Director since June 2015, being responsible for work related to the Communist Party Committee, disciplinary inspection affairs, staff salaries, legal affairs and logistics work of the Company. Mr. Lu had approximately 20 years of extensive experience in the power industry. Before joining the Company, Mr. Lu served successively as a member and director of the first division of the Supervisory Administration Bureau of the Ministry of Electric Power (電力部監察局) from August 1994 to August 1996. From August 1996 to January 2003, he worked successively as the deputy manager and manager of the third supervisory division of the supervisory administration of the State Power Corporation (國家電力公司). From January 2003 to December 2003, he was the manager of the first division of the supervision department of China Datang. During the period from December 2003 and November 2006, Mr. Lu served successively as the member of the Communist Party Committee, head of the disciplinary and supervisory committee and chairman of the labor union of Longtan Hydropower Development Co., Ltd. (龍灘水電開發有限公司). From November 2006 to December 2013, he was the vice secretary of Communist Party Committee, secretary of the disciplinary and supervisory committee and chairman of the labor union of China National Water Resources & Electric Power Materials & Equipment Co., Ltd. (中國水利電力物資有限公司). Mr. Lu graduated from Engineering Institute of the People's Liberation Army for Engineering Soldiers (中國人民解放軍工程兵工程學院) and obtained a bachelor's degree in mechanical engineering in 1983. He further obtained a master's degree in business administration at Ukrainian-American Humanitarian University (烏克蘭烏美人文大學) in 2002. Mr. Lu was accredited as a senior engineer by the Ministry of Power Industry (電力工業部) in October 1995.

III. INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ye Xiang (叶翔)

aged 53, is an independent non-executive Director. Mr. Ye possessed over 20 years of extensive experience in the industries relating to finance, banking and regulation. Mr. Ye was an economist of the People's Bank of China from August 1994 to July 1998, and he worked for Hong Kong Monetary Authority (香港金融管理局) as a senior analyst from August 1998 to July 2000. Mr. Ye served as the executive director of the Bank of China International Holdings Limited (中銀國際控股有限公司) from August 2000 to July 2001. During the period from August 2001 to October 2007, he served successively as the director of China affairs of the Securities and Futures Commission of Hong Kong. Mr. Ye has been acting as the managing director of Vision Gain Capital limited (匯信資本有限公司) since November 2007; an independent director of UBS Securities LLC (瑞銀證券有限責任公司) since March 2010; and a member of the Public Shareholders Group of the SFC since April 2015. In addition, Mr. Ye has held directorship in other listed companies, including the position of independent non-executive director of Wuling Motors Holdings Limited (五菱汽車集團控股有限公司) (a company listed on the Stock Exchange, stock code: 0305) since October 2008 and the position of independent director of Shenzhen Shenxin Taifeng (Group) Co., Ltd. (深圳市深信泰豐(集團)股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000034) since June 2011. Mr. Ye obtained a doctoral degree in economics at the Financial Research Institute of the People's Bank of China (中國人民銀行總行金融研究所) in 1995. Mr. Ye was accredited as a chartered financial analyst by the CFA Institute in September 2004.



Mr. Mao Zhuanjian (毛專建)

aged 63, is an independent non-executive Director. Mr. Mao possessed extensive experience in the environmental protection, energy conservation and clean production of the power industry. Mr. Mao currently serves as the deputy secretary-general of the energy conservation and environmental protection division of CEC (中國電力企業聯合會節能環保分會), member of the specialized committee for energy and environment of China Energy Research Society (中國能源研究會能源與環境專業委員會), member of the specialized committee for electric power and environmental protection of the Chinese Society for Electrical Engineering (中國電機工程學會電力環保專業委員會) and member of the low-carbon economics taskforce of the China Association of Plant Engineering Consultants (中國設備監理協會低碳經濟工作委員會). Before joining the Company, Mr. Mao was the engineer and deputy head of the environmental protection office of the planning department of the Ministry of Water and Power Industry (國家水電部) from February 1986 to November 1988. Between November 1988 and November 1993, Mr. Mao served as the deputy head of the Environmental Protection and Management Division (環境保護管理處) under the environmental protection center for China Electricity Council (中國電力企業聯合會環境保護中心). From November 1995 to September 2005, he served as director of the consulting division of CEC Electric Power Construction Technical Center (中電聯電力建設技術中心) under the State Power Corporation. From October 2005 to June 2013, he served successively as the manager of environmental protection division and the manager of climate change response division under the CEC, the vice secretary for the National Collaborative Network for Desulfurization and Denitrification Technologies for the Power Industry (全國電力行業脱硫脱硝技術協作網), and the deputy secretary for the energy conservation and environmental protection sub-division under the CEC. Mr. Mao graduated from Guizhou Industrial College (貴州工學院) in 1976, majoring in inorganic chemistry. Mr. Mao was accredited as a professor-level senior engineer by the Ministry of Power Industry in April 1999 and was engaged by the energy conservation and environmental protection sub-division under CEC as a core professional for CEC (中國電力企業聯合會核心專家) in June 2014. Mr. Mao was twice accredited as an expert in the expert reserves for environmental protection and energy conservation professionals for the power industry (電力行業環保節能專家庫專家) by CEC in October 2013 and August 2014, respectively.

Mr. Gao Jiaxiang (高家祥)

aged 43, is an independent non-executive Director. Mr. Gao has considerable working experience in internal and external corporate audit, investment, merger and acquisition, restructuring and corporate valuation. Before joining the Company, Mr. Gao served as an audit manager at Xinxiang Juzhongyuan Certified Public Accountants (新鄉巨中元會計師事務所有限責任公司) from May 1996 to July 2003. He then worked at the Beijing branch of Nanfang Minhe Certified Public Accountants as the manager of audit department from August 2003 to June 2006. He worked as the manager at Beijing Zhonghe Dingxin Certified Public Accountants (北京中和鼎信會計師事務所) from July 2006 to August 2007 and the manager at Beijing Tianyuanquan Certified Public Accountants (北京天圓全會計師事務所) from September 2007 to February 2009. Since March 2009 to present, Mr. Gao has been serving as the chief financial officer of Beijing Guanshi Foundation International Investment Management Company Limited (北京管氏基業國際投資管理有限公司). Mr. Gao graduated from Central University of Finance and Economics (中央財經大學) in January 2009 and obtained a bachelor's degree in accounting. He then obtained an MBA from Central University of Finance and Economics in June 2016. He was accredited as a certified public accountant by the Chinese Institute of Certified Public Accountants in April 2003 and as a certified tax agent by Henan Certified Tax Agent Management Center in June 2002.

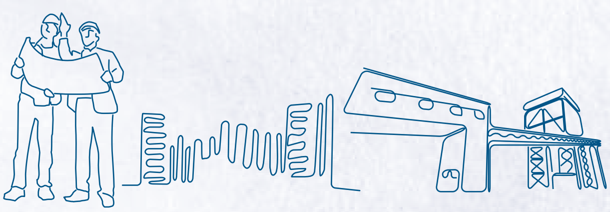
IV. SUPERVISORS

Mr. Wang Yuanchun (王元春)

aged 53, is the chairman of the Supervisory Committee. He had approximately 30 years of working experience in the power related industries. Prior to joining the Company, Mr. Wang served successively as the director of the boiler department, specialized technician of the biotechnology division, manager of the biotechnology division, and deputy plant manager and the engineer of Hancheng Power Plant (韓城發電廠) under Datang Xiaxi Power Co., Ltd. (大唐陝西發電有限公司) from July 1986 to September 1999. Mr. Wang worked as the deputy head of Baoji Power Plant (寶雞發電廠) from September 1999 to April 2001, the deputy general manager at the North West Power Development Co., Ltd. (西北電力開發有限責任公司) from April 2001 to October 2001, and the general manager at Xi'an Baqiao Thermal Power Co., Ltd. (西安灞橋熱電有限責任公司) from October 2001 to June 2003. From June 2003 to November 2006, he successively served as the deputy general manager, general manager, member of and secretary of the Communist Party Committee at Hancheng No. 2 Power Co., Ltd. (韓城第二發電有限責任公司). From November 2006 to July 2013, he successively served as the deputy manager of the engineering management department of China Datang, the member of the Communist Party Committee, vice secretary and secretary of the Communist Party Committee, deputy general manager and general manager at the Shanxi Branch of China Datang (中國大唐山西分公司). Mr. Wang has been serving as the deputy director of the disciplinary team of the Communist Party Committee of China Datang and the director of monitoring division (the office of disciplinary team) of the Communist Party Committee of China Datang since July 2013, and the director of inspection office of China Datang (中國大唐巡視工作辦公室) since February 2015. Mr. Wang obtained a bachelor's degree in thermal power engineering for power plants in 1986 from Xi'an Jiaotong University (西安交通大學), where he further obtained a master's degree in electronic and information engineering from the same university in 2001. Mr. Wang was accredited as a senior engineer by the Northwest Electric Power Administration (西北電業管理局) in December 1997.

Mr. Liu Liming (柳立明)

aged 45, is a Supervisor. Mr. Liu had approximately 20 years of extensive experience in auditing works in relation to the power industry. Prior to his joining the Company, Mr. Liu worked for the audit department in Beijing Electric Power Corporation (北京供電公司) from December 1996 to March 2003. From March 2003 to December 2011, Mr. Liu successively worked as a staff of the first audit department, deputy manager of the first audit department and deputy manager of the third audit department of China Datang. Commencing from December 2011, he has been serving as the manager of the third audit department of China Datang. Mr. Liu graduated from Changsha Institute of Power (長沙電力學院) in 1996, majoring in accounting. Mr. Liu was also qualified as an intermediate accountant by MOF in May 2002.



Mr. Liu Jianxiang (劉建祥)

aged 44, is the Employee Representative Supervisor. He has approximately 20 years of working experience in the power industry. Mr. Liu has been serving as the secretary of the discipline inspection commission, the member of the communist party committee and the director of human resources department of the Company since October 2016. Before joining the Company, Mr. Liu served successively as a staff of operation department, the translator of the administrative office, the specialised technician of planning department, the deputy director of planning department, the deputy director (in charge) of the administrative office and the director of the administrative office at Shandong Rizhao Power Plant (山東日照發電廠) from July 1996 to September 2004. From September 2004 to October 2012, Mr. Liu worked at Rizhao Power Plant of Huaneng Power International, Inc. (華能國際電力股份有限公司日照電廠, a company listed on the Stock Exchange, stock code: 902), successively serving as the director of administrative department, the director and secretary of the communist party branch of human resources department, the deputy manager, the member of the communist party committee, the deputy secretary of the communist party committee, the secretary of the discipline inspection commission and the chairman of the labor union. Mr. Liu also served as the member and the secretary of communist party committee at Huaneng Laiwu Power Plant (華能萊蕪電廠) from October 2012 to November 2014. During the period from November 2014 to October 2016, Mr. Liu served successively as the person in charge and the director of human resources department of the Company. Mr. Liu graduated from Shandong Polytechnic University (山東工業大學) majoring in thermal power engineering for power plants and obtained a bachelor's degree in engineering in July 1996. Mr. Liu further obtained a master's degree in business administration from Dalian University of Technology (大連理工大學) in January 2006. Mr. Liu was accredited as a senior economist by human resource department of China Huaneng Group in December 2010.

V. SENIOR MANAGEMENT

Mr. Hu Xiaodong (胡曉東)

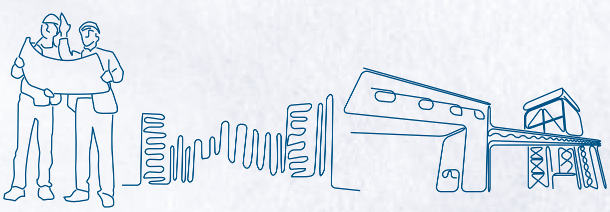
aged 51, has been serving the Company since July 2011. He has been appointed as the deputy general manager of the Company since February 2012 and a member of the Communist Party Committee of the Company since December 2013, being responsible for the Company's operational management, strategy formulation and filing management. From June 2016 to March 2017, Mr. Hu had been serving as the secretary of the Board, the Joint Company Secretary and the authorised representative of the Company, being responsible for the work related to the secretariat of the Board. Mr. Hu has approximately 30 years of extensive experience in the power industry. From July 2004 to December 2013, Mr. Hu served successively as the general manager of the marketing and sales department, general manager of the desulfurization business department, deputy chief economist, general manager of the power station contracting business department, general manager of the new energy business department, director of the technological information department and the deputy general manager of Technologies & Engineering Company. Prior to joining the Company, Mr. Hu was a teacher at the electric power faculty of the Electric Power Vocational University of Jilin Province (吉林省電力職工大學) from July 1987 to September 1993. From March 1996 to May 2004, he successively served as the chief engineer, manager of the marketing department and the deputy general manager of Beijing Sifang Automation Co., Ltd. (北京四方繼保自動化股份有限公司). Mr. Hu graduated from North China Electric Power University (華北電力大學) with a master's degree in electric power system and automation in 1996. Mr. Hu further obtained an MBA degree from Peking University (北京大學) in 2003. Mr. Hu was recognized as a senior engineer by the State Power Corporation (國家電力公司) in December 1998.

Mr. Liu Yinshun (劉銀順)

aged 49, has been serving as a deputy general manager of the Company since 10 March 2017, being responsible for the Company's operational management and safety management. He has approximately 30 years of experience in power industry. Prior to joining the Company, Mr. Liu served as a specialist engineer of safety supervision division of North China Power Management Bureau (華北電力管理局) from July 1990 to August 1999. From August 1999 to May 2002, he served as an engineer and deputy director of safety supervision and facility management division of Datang International Power Generation Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601991; a company listed on the Stock Exchange, stock code: 991). From May 2002 to February 2003, he served as general manager assistant and director of safety supervision department of Tianjin Datang Panshan Power Generation Company Ltd. (天津大唐盤山發電有限責任公司). From February 2003 to December 2013, he served several positions in China Datang Corporation (中國大唐集團公司), including senior staff, deputy director and director of its safety supervision division of production safety department, and deputy director of its production safety department. From December 2013 to March 2016, Mr. Liu served as a deputy general manager and member of the Communist Party Committee of Shanxi Branch of China Datang Corporation. From March 2016 to December 2016, he served as a deputy general manager and member of the Communist Party Committee of Datang Hebei Power Generation Company Ltd. (大唐河北發電有限公司). Mr. Liu graduated from Beijing Economic College (北京經濟學院) with a bachelor's degree in engineering in July 1990, majoring in safety engineering. Mr. Liu was accredited as a senior engineer by State Power Corporation of China in December 2000.

Mr. Li Zhenyu (李震宇)

aged 41, has been serving as the chief accountant and a member of the Communist Party Committee of the Company since August 2016, being responsible for the financial management, capital operation and social security management of the Company. He has more than 15 years of relevant experience in accounting. Prior to joining the Company, he served successively as the accounting clerk, the deputy director of the audit division of the finance department and the deputy director of the finance department at Hunan Huayin Electric Power Co., Ltd. (湖南華銀電力股份有限公司) from July 1998 to September 2005. From September 2005 to June 2008, Mr. Li served as the comprehensive officer of tariff at the finance and property management department of China Datang Corporation. From June 2008 to December 2013, Mr. Li served successively as deputy director (in charge) of the finance and asset management department, director and deputy chief accountant as well as the director of the finance and asset department of China Datang Corporation Overseas Investment Co., Ltd. (中國大唐集團海外投資有限公司). From December 2013 to August 2016, Mr. Li worked as the chief accountant and a member of the Communist Party Committee of Datang Shandong Power Generation Company Ltd. (大唐山東發電有限公司). Mr. Li graduated from Changsha Power Economic University (長沙電力學院), majored in accounting and obtained a bachelor's degree in economics in June 1998. He further obtained a master's degree in economics in Business School of Wuhan University (武 漢 大 學) in June 2001, majoring in industrial economics. Mr. Li was recognized as a senior accountant by China Datang Corporation in December 2011.



Mr. Shen Zhen (申鎮)

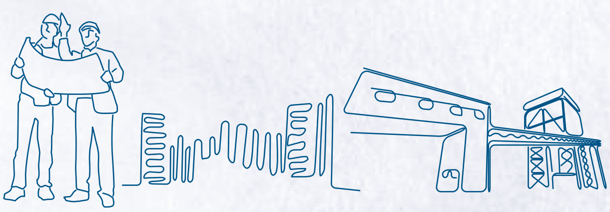
aged 45, was the general manager of the environmental protection branch of the Company from November 2010 to January 2015 and has been serving as a deputy general manager and a member of the Communist Party Committee of the Company since January 2015, being responsible for the market development, research and development, international cooperation and external affairs. Mr. Shen had approximately 20 years of extensive experience in the power industry. From September 2004 to November 2010, Mr. Shen served successively as the manager of the engineering and project management department, deputy general manager of the desulfurization business department, deputy general manager of cooling technology business department, deputy director (in charge) of the general manager's working department and director of the engineering management department at Technologies & Engineering Company. Prior to joining the Company, Mr. Shen was a specialized engineer at Boiler Company of Beijing Electric Power Construction Company (北京電力建設公司鍋爐專業公司) from July 1995 to April 2000 and was appointed as the manager of the engineering management department of Guohua Ebara Environmental Engineering Co., Ltd. (國華荏原環境工程有限責任公司) from April 2000 to September 2004. Mr. Shen graduated from Southeast University (東南大學) with a bachelor's degree in thermal power engineering in 1995. He further obtained an MBA degree from Tsinghua University (清華大學) in 2007. Mr. Shen is an accredited grade-one constructor (一級建造師) recognized by the Ministry of Construction (國家建設部) in March 2005 and a senior engineer recognized by the Beijing Senior Specialized Technique Titles Evaluation Committee (北京市高級專業技術資格評審委員會) of Personnel in October 2007.

Mr. Mao Hui (毛輝)

aged 41, has been serving as a deputy general manager of the Company since 10 March 2017, being responsible for the Company's overseas market development, international cooperation, foreign affairs and informatization management. He has approximately 20 years of experience in power industry. From January 2005 to February 2012, Mr. Mao served several positions in China Datang Technology & Engineering Co., Ltd. (中國大唐集團科技工程有限公司) ("**Technology & Engineering Company**"), which is currently a subsidiary of the Company, including chief assistant of its general manager office, a deputy director of its science and technology management department and director of its human resource department. From February 2012 to January 2015, Mr. Mao served as director of human resource department of the Company, during which, Mr. Mao also served as general manager of Technology & Engineering Company from January 2014 to January 2015 and secretary to the Communist Party Committee of Technology & Engineering Company from March 2014 to January 2015. From January 2015 to December 2016, Mr. Mao continued to serve as general manager and secretary to the Communist Party Committee of Technology & Engineering Company. Prior to joining the Group, he served as an engineer of auxiliary power division of Hunan Thermal Power Construction Corporation (湖南火電建設公司) from August 1997 to March 1999, as an engineer of power transmission and transformation department of China Huadian Engineering Co., Ltd. (中國華電工程(集團)有限公司) ("**China Huadian**") from April 1999 to December 2000, and chief information manager of general manager office of China Huadian from January 2001 to December 2004. Mr. Mao graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in engineering in July 1997, majoring in electrical appliance. He further obtained an MBA degree from Tsinghua University (清華大學) in July 2009. Mr. Mao was accredited as a senior engineer by China Datang Corporation in December 2009.

Mr. Zeng Bing (曾兵)

aged 43, has been serving as the chief economist of the Company, Joint Company Secretary and the authorised representative of the Company since 10 March 2017, being responsible for auditing, legal affairs and equity investment. He has approximately 20 years of experience in power industry. Prior to joining the Company, Mr. Zeng served several positions in Datang Yantan Hydropower Plant (大唐岩灘水力發電廠) from July 1997 to August 2006, including accountant, manager, deputy director and director of its financial department, and was mainly responsible for financial management, including budget management, accounting, fund management and tax management matters. From August 2006 to November 2013, he served as deputy director and director (in charge) of audit and supervision department of Guangxi Guiguan Electric Power Co., Ltd. (廣西桂冠電力股份有限公司) (the "**Guiguan Power**", a company listed on the Shanghai Stock Exchange, stock code: 600236), and was responsible for internal audit and internal control management. From October 2013 to January 2014, he served as the deputy general manager and secretary of the Communist Party committee of Datang Guiguan Shandong Power Investment Company Ltd. (大唐桂冠山東電力投資有限公司), a subsidiary of Guiguan Power, and was mainly responsible for financial management matters, including budget management, accounting, fund management and tax management matters. From January 2014 to October 2015, he served as director of securities affairs department of China Datang Corporation Guangxi Branch (中國大唐集團公司廣西分公司), Guiguan Power and Longtan Hydropower Development Co., Ltd. (龍灘水電開發有限公司) respectively, and was mainly responsible for daily compliance, regulatory reporting and communications and corporate governance matters, including preparing announcements and regular reports, organising board meetings, supervisor committee meetings and shareholder meetings, supervising transactions such as share repurchase, share issue, asset or equity acquisition and/or disposal. From October 2015 to December 2016, he served as the deputy general manager and secretary of the Communist Party committee of Guangxi Datang Electric Power Maintenance Co., Ltd. (廣西大唐電力檢修有限公司), and was mainly responsible for financial management, including budget management, accounting, fund management and tax management matters. Mr. Zeng graduated from Zhongnan University of Finance and Economics (中南財經大學) with a bachelor's degree in economics in July 1997, majoring in accounting. Mr. Zeng was accredited as a PRC certified accountant by the Ministry of Finance of the People's Republic of China in May 2004.



I. PROFILE OF HUMAN RESOURCES

As at 31 December 2016, we had 1,188 employees, substantially all of whom were based in the PRC. The Group have individually established labor union branches. Currently, the Group have entered into employment agreements with all employees, in which the position, duties, remuneration, employment benefits, training, confidentiality obligations relating to trade secrets and grounds for termination are specified pursuant to the PRC Labor Law and other relevant regulations.

The table below sets forth the number of employees as at 31 December 2016 by their functions:

Function	Number of employees	Percentage of the total number of employees
Concession operation management personnel	306	25.76%
Engineering and technical personnel	243	20.45%
Sales personnel	144	12.12%
Research and development personnel	265	22.31%
Administrative and management personnel	122	10.27%
Manufacture personnel	22	1.85%
Others	86	7.24%
Total	1,188	100%

II. STAFF INCENTIVES

According to the development requirements, the Company further established and improved the overall responsibility management system and the whole staff performance evaluation system on the basis of clear position objectives. In order to inspire the potential and work enthusiasm of employees, to fully embody the incentive and constraint behavior, and to laid a solid foundation for the career orderly development of all the employees, the Company divides the specific task in development planning into each department and position, objectively and accurately evaluates the job targets completing performance of employees by building position performance targets and performance standard, and realizes awards and punishments according to the score that is formed by evaluation results quantification.

III. STAFF REMUNERATION POLICY

The remuneration package of our employees includes salaries, bonuses and allowances. Our employees also receive welfare benefits, including medical care, housing subsidies, retirement and other benefits. We carry out employee performance appraisals, establish diversified and dynamic appraisal mechanisms. The department heads' salaries and remunerations will be adjusted corresponding to the results of their performance appraisals. Pursuant to applicable PRC regulations, we have contributed to social insurance funds, including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, and housing funds for our employees.

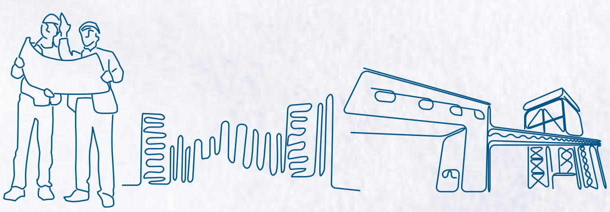
IV. STAFF TRAINING

In order to attract and retain high-quality employees and further improve their knowledge, skill level and professional attainments, we place a strong emphasis on the training of our employees. We offer in-service education, training and other opportunities to our managers and employees to improve their professional skills and knowledge.

In 2016, the Group provided 51 training programs on business management, professional techniques and production skills, with 100% employees attending the trainings.

V. GUARANTEE OF STAFF RIGHTS

The Group complies with the Labour Law of the PRC and the Labour Contract Law of the PRC in all material respects and makes contributions to social insurance and housing provident fund for our employees according to the above laws, among which the social insurance includes basic pension insurance, medical insurance, occupational injury insurance, unemployment insurance and maternity insurance.



To the shareholders of Datang Environment Industry Group Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Datang Environment Industry Group Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 102 to 182, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). 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 are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction contracts	
Approximately 64% of the Group's total revenue was related to construction contracts for the year of 2016, which had significant impact on the Group's financial statements. Management recognises revenue according to the percentage of completion of individual contract of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs. Significant management's estimation is involved in estimating the percentage of completion and the total budgeted costs.	Our audit procedures included, among others, understanding and evaluating the revenue recognition process related to construction contracts and testing the relevant controls that the Group has put in place over its processes to record construction costs, total budgeted costs and construction contract revenue and to calculate the stage of completion. Besides, we gained an understanding of the construction progress based on examination of the associated project documentation, site visit and discussion on the status of projects with finance and project managers of the Group. Furthermore, we performed test of details, such as reviewing the key terms of the significant contracts, checking to the major construction projects, including actual costs and tax invoices, and reviewing the calculation worksheets for the stage of completion of the construction works. We also discussed and gained an understanding of management's estimates for the total budged costs and the changes, checked the nature and components of the cost, such as the sub-contracts and took into account the historical accuracy of such estimates. We also evaluated the adequacy of disclosure of the Group's construction contracts, which are included in Note 2.4, Note 3 and Note 5 of the financial statements.
Useful lives and residual values of property, plant and equipment	
The net book value of property, plant and equipment of the Group at 31 December 2016 was RMB6,643 million. In determining the useful lives and residual values of property, plant and equipment, the Group periodically reviews the changes in market conditions, physical wear and tear, and the maintenance of the assets. The estimation of the useful life and residual value of an asset is based on historical experience of the Group with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the year end, based on changes in circumstances. Thus, significant management's estimation is involved in this process.	Our audit procedures included, among others, evaluating the design and testing the controls operating effectiveness of the property, plant and equipment cycle, especially the controls related to useful lives and residual values; comparing and assessing the accounting estimation over the useful lives and residual values based on our knowledge of the business and comparable companies; identifying the physical wear and tear by site-visiting the significant items, discussing with project manager and testing the frequency and quantity of the maintenance of the assets. We also evaluated the disclosure of the Group's property, plant and equipment, which are included in Note 2.4, Note 3 and Note 13 of the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 THE DIRECTORS 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 issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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 HKSAs 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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 Cheong Ming Yik.

Ernst & Young
Certified Public Accountants

Hong Kong
24 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	5	**8,156,469**	8,609,588
Cost of sales		**(6,483,157)**	(7,229,534)
Gross profit		**1,673,312**	1,380,054
Selling and distribution expenses		**(47,018)**	(38,252)
Administrative expenses		**(282,051)**	(289,947)
Other income and gains	5	**113,745**	71,013
Finance costs	6	**(193,065)**	(230,022)
Profit before tax	7	**1,264,923**	892,846
Income tax expense	10	**(180,193)**	(142,537)
PROFIT FOR THE YEAR		**1,084,730**	750,309
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**2,104**	(23)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**2,104**	(23)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**2,104**	(23)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,086,834**	750,286
Profit attributable to:			
Owners of the parent		**1,020,564**	705,753
Non-controlling interests		**64,166**	44,556
		1,084,730	750,309
Total comprehensive income attributable to:			
Owners of the parent		**1,021,657**	705,741
Non-controlling interests		**65,177**	44,545
		1,086,834	750,286
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	12	**0.41**	0.39

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**6,643,229**	5,933,987
Intangible assets	14	**110,501**	90,126
Prepaid land lease payments	15	**19,996**	20,461
Available-for-sale financial investment	16	**5,000**	5,000
Deferred tax assets	17	**24,829**	15,722
Other non-current assets		**115,357**	20,367
Total non-current assets		**6,918,912**	6,085,663
CURRENT ASSETS			
Inventories	18	**130,286**	154,148
Construction contracts	19	**237,747**	250,028
Trade and bills receivables	20	**6,375,700**	4,977,538
Prepayments, deposits and other receivables	21	**1,235,130**	1,034,542
Restricted cash	22	**25,151**	32,945
Cash and cash equivalents	22	**3,012,614**	1,443,963
Total current assets		**11,016,628**	7,893,164
CURRENT LIABILITIES			
Trade and bills payables	23	**5,766,675**	5,101,859
Other payables and accruals	24	**1,047,059**	806,097
Interest-bearing bank borrowings and other loans	25	**1,166,318**	1,014,502
Income tax payable		**42,918**	39,578
Total current liabilities		**8,022,970**	6,962,036
NET CURRENT ASSETS		**2,993,658**	931,128
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,912,570**	7,016,791

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings and other loans	25	**3,465,837**	3,372,838
Other non-current liabilities		**31,379**	16,882
Total non-current liabilities		**3,497,216**	3,389,720
Net assets		**6,415,354**	3,627,071
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**2,967,542**	2,400,000
Reserves	27	**3,272,466**	1,100,191
		6,240,008	3,500,191
Non-controlling interests		**175,346**	126,880
Total equity		**6,415,354**	3,627,071

Jin Yaohua
Director

Deng Xiandong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent							
	Share capital RMB'000 (note 26)	Capital reserve* RMB'000 (note 27)	Exchange fluctuation reserve* RMB'000 (note 27)	Statutory surplus reserve* RMB'000 (note 27)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	550,000	62,891	–	91,897	889,662	1,594,450	92,785	1,687,235
Profit for the year	–	–	–	–	705,753	705,753	44,556	750,309
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	(12)	–	–	(12)	(11)	(23)
Total comprehensive income for the year	–	–	(12)	–	705,753	705,741	44,545	750,286
Conversion into a joint stock company with limited liability	650,000	1,974	–	(91,897)	(560,077)	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	(14,232)	(14,232)
Appropriation to statutory surplus reserve	–	–	–	73,529	(73,529)	–	–	–
Dividends declared by a subsidiary to its non-controlling equity owners	–	–	–	–	–	–	(20,718)	(20,718)
Capital contribution by non-controlling equity owners	–	–	–	–	–	–	24,500	24,500
Capital contribution	1,200,000	–	–	–	–	1,200,000	–	1,200,000
At 31 December 2015	2,400,000	64,865	(12)	73,529	961,809	3,500,191	126,880	3,627,071
At 1 January 2016	**2,400,000**	**64,865**	**(12)**	**73,529**	**961,809**	**3,500,191**	**126,880**	**3,627,071**
Profit for the year	**–**	**–**	**–**	**–**	**1,020,564**	**1,020,564**	**64,166**	**1,084,730**
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	**–**	**–**	**1,093**	**–**	**–**	**1,093**	**1,011**	**2,104**
Total comprehensive income for the year	**–**	**–**	**1,093**	**–**	**1,020,564**	**1,021,657**	**65,177**	**1,086,834**
Capital contribution	**567,542**	**1,250,375**	**–**	**–**	**–**	**1,817,917**	**–**	**1,817,917**
Appropriation to statutory surplus reserve	**–**	**–**	**–**	**90,009**	**(90,009)**	**–**	**–**	**–**
Dividends declared to owners of the parent *(note 11)*	**–**	**–**	**–**	**–**	**(100,000)**	**(100,000)**	**–**	**(100,000)**
Dividends declared by a subsidiary to its non-controlling equity owners	**–**	**–**	**–**	**–**	**–**	**–**	**(4,275)**	**(4,275)**
Acquisition of non-controlling interests	**–**	**243**	**–**	**–**	**–**	**243**	**(12,436)**	**(12,193)**
At 31 December 2016	**2,967,542**	**1,315,483**	**1,081**	**163,538**	**1,792,364**	**6,240,008**	**175,346**	**6,415,354**

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

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,264,923**	892,846
Adjustments for:			
Finance costs		**193,065**	230,022
Interest income		**(8,358)**	(27,391)
Depreciation of property, plant and equipment	13	**422,310**	312,907
Amortization of intangible assets	14	**9,447**	10,038
Amortization of prepaid land lease payments	15	**465**	738
(Gain) /loss on disposal of items of property, plant and equipment		**215**	(2,446)
Investment income		**–**	(23,843)
Impairment of intangible assets	14	**–**	1,375
Impairment of trade receivables	20	**7,593**	33,945
Impairment of inventories		**–**	391
Decrease in inventories		**24,179**	44,317
Decrease/(increase) in construction contracts		**12,281**	(152,235)
Increase in trade and bills receivables		**(1,405,755)**	(850,280)
Decrease in prepayments, deposits and other receivables		**69,092**	93,171
Increase in trade and bills payables		**664,816**	686,031
Increase in other payables and accruals		**234,805**	170,060
Decrease/(increase) in restricted cash		**7,794**	(21,354)
Cash generated from operations		**1,496,872**	1,398,292
Income tax paid		**(193,278)**	(131,762)
Net cash flows from operating activities		**1,303,594**	1,266,530

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

1. CORPORATE AND GROUP INFORMATION

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

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

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

1. CORPORATE AND GROUP INFORMATION *(CONTINUED)*

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name #	Place of incorporation/ registration	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company *(%)* Direct	Indirect	Principal activities
China Datang Technologies & Engineering Co., Ltd. (中國大唐集團科技工程有限公司) ("**Technologies & Engineering Company**") *(note 1)*	Beijing, the PRC	RMB180,000,000	56.00	–	Environmental protection technology development and provision of engineering services in the PRC
Datang Nanjing Environmental Protection Technology Co., Ltd. (大唐南京環保科技有限責任公司) ("**Nanjing Environmental Protection**")	Nanjing, the PRC	RMB124,630,000	92.11	–	Catalysts development and sales; denitration engineering service in the PRC
Beijing Xingshengtang Trading Co., Ltd. (北京興盛唐商貿有限公司)	Beijing, the PRC	RMB10,000,000	–	100.00	Sale of equipment and construction materials and technology development in the PRC
Beijing Datang Hengtong Mechanical Transport Co., Ltd. (北京大唐恒通機械輸送技術有限公司) ("**Hengtong Mechanical**") *(note 2)*	Beijing, the PRC	RMB5,000,000	20.00	80.00	Provision of technology promotion service in the PRC
Jiangsu Nanjing Thermal Electricity Engineering Design Institute Co., Ltd. (江蘇南京熱電工程設計院有限責任公司)	Nanjing, the PRC	RMB2,000,000	100.00	–	Provision of power industry's engineering design service in the PRC
Beijing Boyuanshengtang Energy Technology Co., Ltd. (北京博遠盛唐能源科技有限公司)	Beijing, the PRC	RMB12,760,000	–	100.00	Provision of engineering technology development, property and hotel management services and product sales in the PRC
Beijing Fengjingshengbao Property Management Co., Ltd. (北京豐璟晟寶物業管理有限公司)	Beijing, the PRC	RMB500,000	–	100.00	Property management services, labor services and good sales in the PRC

1. CORPORATE AND GROUP INFORMATION *(CONTINUED)*

Information about subsidiaries *(Continued)*

Particulars of the Company's subsidiaries are as follows: *(Continued)*

Company name #	Place of incorporation/ registration	Issued and fully paid-up capital/ registered capital	Percentage of equity attributable to the Company *(%)* Direct	Indirect	Principal activities
Datang Technologies & Engineering India Private Limited (大唐科技工程印度有限公司) ("**Technologies & Engineering India**")	Mumbai, India	Rupees 1,000,000	–	100.00	Provision of engineering service and equipment purchase and sales in India
Datang Beijing Energy Saving & Technology Co., Ltd. (大唐(北京)節能技術有限公司)	Beijing, the PRC	RMB10,000,000	65.00	–	Construction project management, contraction and technology services in the PRC
Datang Beijing Water Engineering & Technology Co., Ltd. (大唐(北京)水務工程技術有限公司)	Beijing, the PRC	RMB100,000,000	100.00	–	Technology services, water engineering and construction services in the PRC
Zhejiang Datang Tiandi Environmental Technology Co., Ltd. (浙江大唐天地環保科技有限公司)	Ningbo, the PRC	RMB60,000,000	65.00	–	Pollution improvement environmental protection technology development and technology service in the PRC
Datang (Beijing) Energy Management Co., Ltd. (大唐(北京)能源管理有限公司)	Beijing, the PRC	RMB50,000,000	100.00	–	Provision of engineering service; EPC and energy saving technology promotion services in the PRC

\# The names of these companies referred to in this report represent management's best effort at translating the Chinese names of the companies, as no English names have been registered.

Note 1: On 8 November 2016, the Company and Tuoketuo Electricity Tongfa Trading Co., Ltd. ("**Tongfa Trading**") (托克托電力同發商貿有限責任公司), entered into an equity transfer agreement, pursuant to which Tongfa Trading transferred its 5% equity interest in Technologies & Engineering Company to the Company at a consideration of RMB9,000,000. This transaction was completed on 8 December 2016 and then the Company directly held a 56% equity interest in Technologies & Engineering Company.

Note 2: On 29 May 2016, the Company and Beijing Hengtong Huanke Material Conveying Technologies Co., Ltd. ("**Beijing Hengtong**") (北京恒通環科物料輸送技術有限公司), an independent third party, entered into an equity transfer agreement, pursuant to which Beijing Hengtong transferred its 20% equity interest in Hengtong Mechanical to the Company at a consideration of RMB3,192,000 based on the valuation report of Hengtong Mechanical. This transaction was completed on 8 August 2016 and then the Company directly held a 20% equity interest, and through its subsidiaries, indirectly held an 80% equity interest in Hengtong Mechanical.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15 and Clarifications to IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
Annual Improvements to IFRSs 2014–2016 Cycle[1/2]	

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

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

IFRS 9 *Financial Instruments*

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

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

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

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

IFRS 16 *Leases*

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

Amendments to IAS 7 *Disclosure Initiative*

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

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

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

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

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

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

Annual Improvements to *IFRSs 2014–2016 Cycle*

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

IFRS 12 *Disclosure of Interests in Other Entities*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Merger accounting for business combinations 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 party's perspective. No amount is recognised for goodwill or excess of the acquirers' interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of the common control combination.

The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's equity owner's consolidated financial statements. The components of equity of the acquired equities are added to the same components within the Group's equity and any gain/loss arisen is recognised directly in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Merger accounting for business combinations under common control *(Continued)*

The consolidated statement of profit or loss and other comprehensive income includes 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 common control, where this is a shorter period, regardless of the date of the common control combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as expenses in the period in which they are incurred.

Acquisition method of accounting for business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Acquisition method of accounting for business combinations and goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interests in its former subsidiary after the sale.

Disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets and disposal groups classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and other infrastructure	3.17%
Machinery	6.33%
Transportation vehicle	15.83%
Office equipment and others	9.50%–19.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plants under construction and equipment being installed, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of 10 years.

Patents

Purchased patents are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 years.

Non-patent technology

Non-patent technology is stated at cost less any impairment losses and is amortized on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

Research and development expenditures are classified as research expenditures and development expenditures according to the nature of the expenditures and whether there is significant uncertainty of development activities transforming to assets.

Research expenditures are recognised in profit or loss for the current period. Development expenditures are recognised as assets when all of the following criteria are met:

(i) it is technically feasible to complete the asset so that it will be available for use or sale;

(ii) management intends to complete the asset and intends and has the ability to use or sell it;

(iii) it can be demonstrated that the asset will generate probable future economic benefits;

(iv) there are adequate technical, financial and other resources to complete the development of the asset and management has the ability to use or sell the asset; and

(v) the expenditure attributable to the asset during its development phase can be reliably measured.

Development expenditures that do not meet the criteria above are recorded in profit or loss or the current period as incurred. Development expenditures that have been recorded in profit or loss in previous periods will not be recognised as assets in subsequent periods. Capitalized development expenditures are included in property, plant and equipment and intangible assets as appropriate according to their natures.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Prepaid land lease payments

Purchased land use rights are accounted for as prepaid land lease payments. For self-development and constructed plants and buildings, the expenditures of land use rights and construction costs of plant and buildings are accounted for as prepaid land lease payments and fixed assets respectively. For acquired plant and buildings, the consideration shall be allocated between land use rights and plant and buildings. If the consideration cannot be allocated reasonably, the consideration shall be accounted for as fixed assets. Purchased lands are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 50 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments by the Group. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains, as appropriate, in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognised in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale financial investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings by the group.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within six months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and receivables from others. If collection of these 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.

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

Provision for impairment of trade and other receivables is usually determined on the following bases:

- For top 10 receivables at group level and the receivables from related parties, the Group assesses whether impairment exists individually. If there is objective evidence of impairment exists, the amount of any impairment loss identified is measured as the difference between the individually receivable's carrying amount and the present value of estimated future cash flows. If the Group determines that no objective evidence of impairment exists for above individually assessed receivables, it includes the asset in a group of receivables with similar credit risk characteristics and collectively assesses them for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

- For trade and other receivables from third parties that are not individually significant, the provision for impairment is determined at (i) if there is objective evidence of impairment exists, the impairment loss identified is measured as the difference between the individual receivable's carrying amount and the present value of estimated future cash flows; and (ii) if there is no objective evidence of impairment exists, the Group includes the receivables in groups of receivables based on the aging and collectively assesses them for impairment based on the percentages as shown in the following table. Receivables that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Trade and other receivables *(Continued)*

	Percentage of provision (%)	
Aging	Trade receivables	Other receivables
Within 1 year	–	10
1 to 2 years	10	20
2 to 3 years	20	40
3 to 4 years	30	60
4 to 5 years	50	80
After 5 years	80	100

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the date of the consolidated statement of financial position of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Sales of goods

The Group is engaged in the manufacture and sale of environmental protection products and other related electric equipment for power plants, desulfurization, denitrification, water treatment, solar energy and other environmental protection and energy conservation projects. Revenue is recognised when goods are delivered to the customers' premises which is taken to be the point in time when the customers have accepted the goods and the related risks and have been entitled to rewards of ownership. Revenue excludes value added tax ("**VAT**") or other sales taxes and is after deduction of any trade discounts.

(b) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The Group enters into construction contracts with respect to the engineering projects in relation to desulfurization and denitrification facilities at coal-fired power plants, wind power plants, solar power plants, coal-fired power plants and coal yards. Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, costs of subcontracting, direct labor and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition *(Continued)*

(c) Rendering of desulfurization and denitrification services

The Group is engaged in providing desulfurization and denitrification services to power plants under the concession operation contracts for a period of the life cycle of the power plants. The service revenues are recognised at an on-grid tariff of a certain amount per kWh for the electricity generated by the power plants. Costs of rendering services comprise labor cost, water and electric cost and other costs of personnel directly engaged in providing the services and attributable overheads.

(d) Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset.

(e) Dividends

Dividend income is recognised when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when 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 capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividend distribution

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and the consolidated statements of profit or loss and other comprehensive income of these subsidiaries are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

Employee benefits mainly include salaries, bonuses, allowances and subsidies, pension insurance, social insurance and housing funds, labor union fees, employees' education fees and other expenses related to the employees for their services. The Group recognises employee benefits as liabilities during the accounting period when employees render the services and allocates the related cost of assets and expenses based on different beneficiaries.

(a) Bonus plans

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

(b) Retirement benefit obligations

The Group primarily pays contributions on a monthly basis to participate in a pension plan organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. The Group has no legal or constructive obligations for further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their current and past services.

(c) Other social insurance and housing funds

The Group provides other social insurance and housing funds to the qualified employees in the PRC based on certain percentages of their salaries. These percentages are not to exceed the upper limits of the percentages prescribed by the Ministry of Human Resources and Social Security of the PRC. These benefits are paid to social security organizations and the amounts are expensed as incurred. The Group has no legal or constructive obligations for further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their current and past services.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty *(Continued)*

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the end of the reporting period, based on changes in circumstances.

Current income tax and deferred income tax

The Group is subject to income taxes in the PRC. Estimation is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

Deferred tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences can be utilized. The realization of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place.

Percentage of completion of construction contracts

The Group recognises revenue according to the percentage of completion of individual contracts of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs. Due to the nature of the activity undertaken in construction works, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the percentage of completion of construction works. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

Estimation of total budgeted costs and cost to completion for construction contracts

Total budgeted costs for construction contracts comprise (i) direct material costs and direct labor, (ii) costs of subcontracting, and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on material costs, labor costs and other costs.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Estimation uncertainty *(Continued)*

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of its trade receivables, its customers' creditworthiness and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

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

(a) Environmental protection and energy conservation solutions

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

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

(b) Renewable energy engineering

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

(c) Thermal power plants engineering general contracting

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

(d) Other businesses

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Year ended 31 December 2016	Environmental protection and energy conservation solutions *RMB'000*	Renewable energy engineering *RMB'000*	Thermal power plants engineering general contracting *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	**6,008,992**	**1,919,564**	**–**	**227,913**	**8,156,469**
Intersegment sales	**44,216**	**–**	**–**	**14,028**	**58,244**
	6,053,208	**1,919,564**	**–**	**241,941**	**8,214,713**
Reconciliation:					
Elimination of intersegment sales					**(58,244)**
Revenue					**8,156,469**
Segment results	**1,433,191**	**99,580**	**–**	**57,091**	**1,589,862**
Reconciliation:					
Other income and gains					**113,745**
Corporate and other unallocated expenses					**(245,619)**
Finance costs					**(193,065)**
Profit before tax					**1,264,923**

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Year ended 31 December 2016	Environmental protection and energy conservation solutions *RMB'000*	Renewable energy engineering *RMB'000*	Thermal power plants engineering general contracting *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Segment assets	**14,163,731**	**1,740,823**	**92,779**	**624,281**	**16,621,614**
Reconciliation:					
Elimination of intersegment receivables					**(432,182)**
Corporate and other unallocated assets					**1,746,108**
Total assets					**17,935,540**
Segment liabilities	**5,087,071**	**1,545,296**	**79,444**	**513,898**	**7,225,709**
Reconciliation:					
Elimination of intersegment payables					**(432,182)**
Corporate and other unallocated liabilities					**4,726,659**
Total liabilities					**11,520,186**
Other segment information					
Impairment losses/(reversal of impairment losses) recognised in profit or loss	**(2,582)**	**–**	**–**	**10,175**	**7,593**
Depreciation and amortisation	**417,916**	**75**	**76**	**14,155**	**432,222**
Capital expenditure*	**1,017,840**	**–**	**–**	**144,159**	**1,161,999**

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

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Year ended 31 December 2015	Environmental protection and energy conservation solutions *RMB'000*	Renewable energy engineering *RMB'000*	Thermal power plants engineering general contracting *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	5,453,813	2,674,166	147,538	334,071	8,609,588
Intersegment sales	11,734	–	5,435	17,615	34,784
	5,465,547	2,674,166	152,973	351,686	8,644,372
Reconciliation:					
Elimination of intersegment sales					(34,784)
Revenue					8,609,588
Segment results	1,254,595	16,739	881	35,036	1,307,251
Reconciliation:					
Other income and gains					71,013
Corporate and other unallocated expenses					(255,396)
Finance costs					(230,022)
Profit before tax					892,846

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Year ended 31 December 2015	Environmental protection and energy conservation solutions *RMB'000*	Renewable energy engineering *RMB'000*	Thermal power plants engineering general contracting *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Segment assets	11,781,645	1,369,261	172,850	536,038	13,859,794
Reconciliation:					
Elimination of intersegment receivables					(334,188)
Corporate and other unallocated assets					453,221
Total assets					13,978,827
Segment liabilities	5,341,667	1,459,376	177,589	493,307	7,471,939
Reconciliation:					
Elimination of intersegment payables					(334,188)
Corporate and other unallocated liabilities					3,214,005
Total liabilities					10,351,756
Other segment information					
Impairment losses recognised in profit or loss	18,483	–	–	17,228	35,711
Depreciation and amortization	308,269	106	83	15,225	323,683
Capital expenditure*	3,089,352	25	–	8,730	3,098,107

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

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Revenue from sales of goods	**434,255**	376,630
Revenue from construction services	**5,186,012**	6,017,244
Revenue from desulfurization and denitrification services	**2,478,340**	1,881,643
Revenue from other services	**57,862**	334,071
	8,156,469	8,609,588
Other income		
Bank interest income	**8,358**	27,391
Investment income	**–**	23,843
Government grants	**65,832**	14,424
	74,190	65,658
Gains		
Gain/(loss) on disposal of items of property, plant and equipment	**(215)**	2,446
Exchange gains *(a)*	**39,770**	2,909
	39,555	5,355
	113,745	71,013

Note:

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest expenses on bank borrowings and other loans	**203,098**	234,794
Less: interest capitalized	**(10,033)**	(4,772)
	193,065	230,022

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000
Cost of goods sold		**240,768**	253,127
Cost of services provided		**6,242,389**	6,976,407
Cost of sales		**6,483,157**	7,229,534
Depreciation of property, plant and equipment	13	**422,310**	312,907
Amortization of intangible assets	14	**9,447**	10,038
Amortization of leasehold land	15	**465**	738
Research and development costs		**19,374**	19,523
Impairment of trade receivables	20	**7,593**	33,945
Impairment of inventories		**–**	391
Provision for warranty		**3,314**	5,637
Minimum lease payments under operating leases		**33,424**	34,382
Auditor's remuneration		**4,917**	4,385
Employee benefit expense (excluding Directors' and Supervisors' remuneration *(note 8)*):			
Wages, salaries and allowances, social securities and benefits		**289,011**	249,750
Pension scheme contributions (defined contribution scheme)		**39,171**	27,859
		328,182	277,609
Bank interest income	5	**(8,358)**	(27,391)
Investment income	5	**–**	(23,843)
Government grants	5	**(65,832)**	(14,424)
Loss/(gain) on disposal of items of property, plant and equipment, net	5	**215**	(2,446)
Exchange gains	5	**(39,770)**	(2,909)

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

The aggregate amounts of remuneration of the Directors and Supervisors of the Company during the year are as follows:

	2016 RMB'000	2015 RMB'000
Fees	**300**	–
Other emoluments:		
– Salaries, housing benefits, other allowances and benefits in kind	**2,124**	1,910
– Pension scheme contributions (defined contribution scheme)	**144**	112
Total	**2,568**	2,022

The remuneration of each director and supervisor of the Company for the year ended 31 December 2016 is set out below:

	Notes	Fees RMB'000	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Pension scheme contributions (defined contribution scheme) RMB'000	Total remuneration RMB'000
Executive directors:					
Mr. Deng Xiandong		–	817	48	865
Mr. Lu Shengli		–	787	48	835
		–	1,604	96	1,700
Non-executive directors:					
Mr. Jin Yaohua		–	–	–	–
Mr. Liu Chuandong		–	–	–	–
Mr. Kou Bing'en	(iv)	–	–	–	–
Mr. An Hongguang	(iv)	–	–	–	–
Mr. Liu Guangming	(iv)	–	–	–	–
Mr. Liang Yongpan	(iv)	–	–	–	–
		–	–	–	–
Independent non-executive directors:					
Mr. Wang Guohua	(v)	–	–	–	–
Mr. Ye Xiang		100	–	–	100
Mr. Mao Zhuanjian		100	–	–	100
Mr. Gao Jiaxiang	(v)	100	–	–	100
		300	–	–	300

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

The remuneration of each director and supervisor of the Company for the year ended 31 December 2016 is set out below: *(Continued)*

	Fees *RMB'000*	Salaries, housing benefits, other allowances and benefits in kind *RMB'000*	Pension scheme contributions (defined contribution scheme) *RMB'000*	Total remuneration *RMB'000*
Supervisors:				
Mr. Wang Yuanchun	–	–	–	–
Mr. Liu Liming	–	–	–	–
Mr. Wang Hongjin	–	520	48	568
	–	520	48	568
	300	2,124	144	2,568

The remuneration of each director and supervisor of the Company for the year ended 31 December 2015 is set out below:

	Notes	Fees *RMB'000*	Salaries, housing benefits, other allowances and benefits in kind *RMB'000*	Pension scheme contributions (defined contribution scheme) *RMB'000*	Total remuneration *RMB'000*
Executive directors:					
Mr. Deng Xiandong	(i)	–	761	44	805
Mr. Lu Shengli	(ii)	–	681	44	725
		–	1,442	88	1,530
Non-executive directors:					
Mr. Jin Yaohua	(ii)	–	–	–	–
Mr. Liu Chuandong	(ii)	–	–	–	–
Mr. Kou Bing'en	(ii)	–	–	–	–
Mr. An Hongguang	(ii)	–	–	–	–
		–	–	–	–
Independent non-executive directors:					
Mr. Wang Guohua	(iii)	–	–	–	–
Mr. Ye Xiang	(iii)	–	–	–	–
Mr. Mao Zhuanjian	(iii)	–	–	–	–
		–	–	–	–

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

The remuneration of each director and supervisor of the Company for the year ended 31 December 2015 is set out below: *(Continued)*

	Notes	Fees *RMB'000*	Salaries, housing benefits, other allowances and benefits in kind *RMB'000*	Pension scheme contributions (defined contribution scheme) *RMB'000*	Total remuneration *RMB'000*
Supervisors:					
Mr. Wang Yuanchun	(iii)	–	–	–	–
Mr. Liu Liming	(iii)	–	–	–	–
Mr. Wang Hongjin	(iii)	–	468	24	492
		–	468	24	492
		–	1,910	112	2,022

Notes:

(i) Mr. Deng Xiandong was appointed as an executive director of the Company effective from 13 August 2013.

(ii) Mr. Lu Shengli was appointed as an executive director of the Company effective from 26 June 2015. Mr. Jin Yaohua, Mr. Liu Chuandong, Mr. Kou Bing'en and Mr. An Hongguang were appointed as non-executive directors of the Company effective from 26 June 2015.

(iii) Mr. Wang Guohua, Mr. Ye Xiang and Mr. Mao Zhuanjian were appointed as independent non-executive directors of the Company effective from 26 June 2015 when the Company was converted into a joint stock company with limited liability. Mr. Wang Yuanchun, Mr. Liu Liming and Mr. Wang Hongjin were appointed as supervisors with effect from 26 June 2015.

(iv) Mr. Liu Guangming and Mr. Liang Yongpan were appointed as non-executive directors of the Company effective from 29 April 2016 while Mr. Kou Bing'en and Mr. An Hongguang resigned as non-executive directors on the same date.

(v) Mr. Gao Jiaxiang was appointed as an independent non-executive director of the Company effective from 29 April 2016 while Mr. Wang Guohua resigned as an independent non-executive director on the same date.

In 2015, the remuneration of Mr. Jin Yaohua, Mr. Liu Chuandong, Mr. Kou Bing'en, Mr. An Hongguang, Mr. Wang Yuanchun and Liu Guangming was paid by China Datang, and no remuneration was paid by the Company. During the period from 26 June 2015 to 31 December 2015, no remuneration was paid to these independent non-executive directors.

In 2016, the remuneration of Mr. Jin Yaohua, Mr. Liu Chuandong, Mr. Kou Bing'en, Mr. An Hongguang, Mr. Liu Guangming, Mr. Liang Yongpan, Mr. Wang Guohua, Mr. Wang Yuanchun and Mr. Liu Liming was paid by China Datang, and no remuneration was paid by the Company.

There was no arrangement under which the Directors waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two directors and three senior executives during the year ended 31 December 2016 (2015: two directors and three senior executives). Details of directors' and supervisors' remuneration are set out in note 8 above. Details of the remuneration of the highest paid senior executives who are not a director or a supervisor of the Company are as follows:

	2016	2015
	RMB'000	*RMB'000*
Salaries, housing benefits, other allowances and benefits in kind	**2,151**	1,961
Pension scheme contributions (defined contribution scheme)	**144**	132
Total	**2,295**	2,093

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
Nil to HK$1,000,000	**3**	3
Total	**3**	3

10. INCOME TAX EXPENSE

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

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

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

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

10. INCOME TAX EXPENSE *(CONTINUED)*

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

	2016 **RMB'000**	2015 RMB'000
Current – PRC	**176,940**	149,059
Current – other country	**12,360**	178
Deferred *(note 17)*	**(9,107)**	(6,700)
	180,193	142,537

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

	2016 **RMB'000**	2015 RMB'000
Profit before tax	**1,264,923**	892,846
Income tax at the statutory income tax rate of 25%	**316,231**	223,212
Effect of a different tax rate applicable in an other country	**2,060**	30
Effect of the preferential income tax rate	**(133,778)**	(90,741)
Expenses not deductible for tax	**2,721**	12,228
Income not subject to tax	**–**	(744)
Additional deduction of research and development costs	**(1,994)**	(1,895)
Adjustments in respect of current tax of previous periods	**(1,863)**	–
Tax credit from purchase of domestic equipment	**(3,235)**	–
Others	**51**	447
Income tax charge for the year	**180,193**	142,537
The Group's effective rate	**14.3%**	16.0%

11. DIVIDENDS

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

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

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

(ii) Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules, the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes final dividend to non-resident enterprise holders of H Shares (including any H Shares registered in the name of HKSCC Nominees Limited).

Pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementing rules as well as the Tax Notice, the Company will implement arrangements in relation to the withholding and payment of individual income tax ranging from 10% to 20% on behalf of individual holders of H Shares.

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

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

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

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

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(CONTINUED)*

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

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings and other infrastructure *RMB'000*	Machinery *RMB'000*	Transportation vehicle *RMB'000*	Office equipment and others *RMB'000*	Construction in progress ("CIP") *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2016	853,035	5,479,206	33,301	96,089	302,172	6,763,803
Addition	21,003	5,599	1,749	14,497	1,089,329	1,132,177
Transfer from CIP	27,416	269,743	–	–	(297,159)	–
Disposals	(352)	(933)	–	(106)	–	(1,391)
At 31 December 2016	901,102	5,753,615	35,050	110,480	1,094,342	7,894,589
Accumulated depreciation:						
At 1 January 2016	(117,458)	(665,616)	(20,955)	(25,787)	–	(829,816)
Provision	(29,449)	(379,109)	(3,957)	(9,795)	–	(422,310)
Disposals	191	513	–	62	–	766
At 31 December 2016	(146,716)	(1,044,212)	(24,912)	(35,520)	–	(1,251,360)
Impairment:						
At 1 January 2016	–	–	–	–	–	–
Provided	–	–	–	–	–	–
At 31 December 2016	–	–	–	–	–	–
Net carrying amount:						
At 1 January 2016	735,577	4,813,590	12,346	70,302	302,172	5,933,987
At 31 December 2016	754,386	4,709,403	10,138	74,960	1,094,342	6,643,229

13. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Buildings and other infrastructure *RMB'000*	Machinery *RMB'000*	Transportation vehicle *RMB'000*	Office equipment and others *RMB'000*	Construction in progress ("CIP") *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2015	852,309	2,669,395	29,528	89,231	65,642	3,706,105
Additions	17,983	2,785,177	5,063	9,295	266,701	3,084,219
Transfer from CIP	2,244	27,927	–	–	(30,171)	–
Disposals	–	(286)	(988)	(765)	–	(2,039)
Disposal of subsidiaries	(19,501)	(3,007)	(302)	(1,672)	–	(24,482)
At 31 December 2015	853,035	5,479,206	33,301	96,089	302,172	6,763,803
Accumulated depreciation:						
At 1 January 2015	(94,118)	(392,663)	(16,149)	(23,160)	–	(526,090)
Provision	(27,526)	(275,092)	(6,032)	(4,257)	–	(312,907)
Disposals	–	18	939	765	–	1,722
Disposal of subsidiaries	4,186	2,121	287	865	–	7,459
At 31 December 2015	(117,458)	(665,616)	(20,955)	(25,787)	–	(829,816)
Impairment:						
At 1 January 2015	–	–	–	–	–	–
Provided	–	–	–	–	–	–
At 31 December 2015	–	–	–	–	–	–
Net carrying amount:						
At 1 January 2015	758,191	2,276,732	13,379	66,071	65,642	3,180,015
At 31 December 2015	735,577	4,813,590	12,346	70,302	302,172	5,933,987

Certain items of property, plant and equipment of the Group with a net carrying amount of approximately RMB166,164,000 as at 31 December 2016 (31 December 2015:RMB179,934,000) were pledged to secure certain bank borrowings and other loans granted to the Group (note 25).

As at 31 December 2016, the Group was in the process of applying for the ownership certificates of buildings with a net carrying amount of RMB45,926,000 (31 December 2015: Nil).

14. INTANGIBLE ASSETS

	Patents *RMB'000*	Non-patented technology *RMB'000*	Development expenditure *RMB'000*	Software *RMB'000*	Total *RMB'000*
Cost:					
At 1 January 2016	65,795	31,066	19,775	9,388	126,024
Addition	–	–	46,683	2,506	49,189
Reclassification	14,655	931	(16,270)	684	–
Recognised in research and development expenses	–	–	(19,367)	–	(19,367)
At 31 December 2016	80,450	31,997	30,821	12,578	155,846
Accumulated amortization:					
At 1 January 2016	(13,773)	(15,417)	–	(5,333)	(34,523)
Provision	(6,160)	(2,213)	–	(1,074)	(9,447)
At 31 December 2016	(19,933)	(17,630)	–	(6,407)	(43,970)
Impairment:					
At 1 January 2016	(1,375)	–	–	–	(1,375)
Provided	–	–	–	–	–
At 31 December 2016	(1,375)	–	–	–	(1,375)
Net carrying amount:					
At 1 January 2016	50,647	15,649	19,775	4,055	90,126
At 31 December 2016	59,142	14,367	30,821	6,171	110,501

14. INTANGIBLE ASSETS *(CONTINUED)*

	Patents *RMB'000*	Non-patented technology *RMB'000*	Development expenditure *RMB'000*	Software *RMB'000*	Total *RMB'000*
Cost:					
At 1 January 2015	43,429	30,523	38,426	7,606	119,984
Addition	–	–	11,997	1,891	13,888
Reclassification	25,718	543	(26,261)	–	–
Recognised in research and development expenses	–	–	(4,387)	–	(4,387)
Disposal of subsidiaries	(3,352)	–	–	(109)	(3,461)
At 31 December 2015	65,795	31,066	19,775	9,388	126,024
Accumulated amortization:					
At 1 January 2015	(8,782)	(12,868)	–	(4,428)	(26,078)
Provision	(6,494)	(2,549)	–	(995)	(10,038)
Disposal of subsidiaries	1,503	–	–	90	1,593
At 31 December 2015	(13,773)	(15,417)	–	(5,333)	(34,523)
Impairment:					
At 1 January 2015	–	–	–	–	–
Provided	(1,375)	–	–	–	(1,375)
At 31 December 2015	(1,375)	–	–	–	(1,375)
Net carrying amount:					
At 1 January 2015	34,647	17,655	38,426	3,178	93,906
At 31 December 2015	50,647	15,649	19,775	4,055	90,126

As at 31 December 2016, certain intangible assets of the Group with a net carrying amount of approximately RMB16,973,000 (31 December 2015: RMB18,589,000) were pledged to secure certain bank borrowings and other loans granted to the Group (note 25).

15. PREPAID LAND LEASE PAYMENTS

	RMB'000
Cost:	
At 1 January 2016	**21,858**
Addition	**–**
At 31 December 2016	**21,858**
Accumulated amortization:	
At 1 January 2016	**(1,397)**
Amortization	**(465)**
At 31 December 2016	**(1,862)**
Impairment:	
At 1 January 2016	**–**
Provided	**–**
At 31 December 2016	**–**
Net carrying amount:	
At 1 January 2016	**20,461**
At 31 December 2016	**19,996**

15. PREPAID LAND LEASE PAYMENTS *(CONTINUED)*

	RMB'000
Cost:	
At 1 January 2015	43,096
Disposal of subsidiaries	(21,238)
At 31 December 2015	21,858
Accumulated amortization:	
At 1 January 2015	(3,516)
Amortization	(738)
Disposal of subsidiaries	2,857
At 31 December 2015	(1,397)
Impairment:	
At 1 January 2015	(21)
Provided	–
Disposal of subsidiaries	21
At 31 December 2015	–
Net carrying amount:	
At 1 January 2015	39,559
At 31 December 2015	20,461

16. AVAILABLE-FOR-SALE FINANCIAL INVESTMENT

	2016 RMB'000	2015 RMB'000
Unlisted equity investment, at cost	**5,000**	5,000

As at 31 December 2016, a certain unlisted equity investment with a carrying amount of RMB5,000,000 (31 December 2015: RMB5,000,000) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

17. DEFERRED TAX

The deferred tax assets recognised and the movements therein for the year are as follows:

	Provision for impairment of trade and other receivables *RMB'000*	Accrued expenses *RMB'000*	Deferred income *RMB'000*	Elimination of unrealized profit *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2016	**12,702**	**232**	**540**	**–**	**2,248**	**15,722**
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	**1,357**	**2,093**	**1,842**	**5,660**	**(1,845)**	**9,107**
At 31 December 2016	**14,059**	**2,325**	**2,382**	**5,660**	**403**	**24,829**
At 1 January 2015	7,470	368	462	–	851	9,151
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	5,361	(136)	78	–	1,397	6,700
Disposal of subsidiaries	(129)	–	–	–	–	(129)
At 31 December 2015	12,702	232	540	–	2,248	15,722

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**35,108**	38,536
Work-in-progress	**8,707**	17,931
Finished goods	**85,978**	69,408
Packaging materials and low-valued consumables	**493**	28,273
	130,286	154,148

19. CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Gross amount due from contract customers included in construction contracts *(note a)*	**237,747**	250,028
Gross amount due to contract customers included in other payables and accruals *(note a) (note 24)*	**(272,985)**	(235,634)
	(35,238)	14,394
Contract costs incurred plus recognised profits less recognised losses to date	**28,834,442**	22,503,679
Less: progress billings	**(28,869,680)**	(22,489,285)
	(35,238)	14,394

Note a: The gross amount due from contract customers for contract work is recorded as an asset of construction contracts. The gross amount due to contract customers for contract work was recorded as an advance from contract customers in other payables and accruals (note 24).

20. TRADE AND BILLS RECEIVABLES

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

	2016 RMB'000	2015 RMB'000
Trade receivables	**5,879,063**	4,776,954
Less: provision for impairment	**(91,312)**	(83,719)
	5,787,751	4,693,235
Bills receivable	**587,949**	284,303
	6,375,700	4,977,538

(a) Aging analysis

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

	2016 RMB'000	2015 RMB'000
Within 1 year	**4,427,993**	3,415,829
Between 1 and 2 years	**1,165,106**	1,307,533
Between 2 and 3 years	**686,358**	172,884
Over 3 years	**187,555**	165,011
	6,467,012	5,061,257
Less: provision for impairment	**(91,312)**	(83,719)
	6,375,700	4,977,538

20. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

(a) Aging analysis *(Continued)*

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**4,427,993**	3,415,829
Past due but not impaired:		
Within 1 year	**1,148,069**	972,025
Between 1 and 2 years	**610,217**	123,532
Between 2 and 3 years	**7,327**	58,999
Over 3 years	**52,041**	34,520
	6,245,647	4,604,905

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

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

(b) Impairment of trade receivables

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

	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**83,719**	51,091
Impairment for the year	**10,314**	33,945
Reversal	**(2,721)**	–
Disposal of subsidiaries	**–**	(1,317)
At end of the year	**91,312**	83,719

As at 31 December 2016, the net carrying amounts of certain trade and bill receivables of the Group of nil (31 December 2015: approximately RMB35,497,000) were pledged to secure certain bank borrowings and other loans granted to the Group (note 25).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Due from related parties	**177,619**	223,602
Prepayments	**712,611**	771,812
Other receivables	**54,949**	37,294
Other current assets	**290,122**	2,005
	1,235,301	1,034,713
Less: provision for impairment	**(171)**	(171)
Total	**1,235,130**	1,034,542

The above assets that were neither past due nor impaired relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**3,037,765**	1,476,908
Less: restricted cash *(note a)*	**(25,151)**	(32,945)
Cash and cash equivalents	**3,012,614**	1,443,963
Cash and bank balances denominated in:		
– RMB	**1,060,914**	1,358,138
– United States dollars	**57,058**	112,099
– HK dollars	**1,918,784**	–
– Indian rupees	**1,009**	6,671
	3,037,765	1,476,908

Note a: Restricted cash mainly represented deposits held for issued notes payable and letters of credit.

The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

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

	2016 RMB'000	2015 RMB'000
Bills payable	**36,478**	59,677
Trade payables	**5,730,197**	5,042,182
	5,766,675	5,101,859

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

	2016 RMB'000	2015 RMB'000
Within 1 year	**4,231,928**	4,015,861
Between 1 year to 2 years	**850,803**	560,049
Between 2 years to 3 years	**297,885**	153,701
Over 3 years	**386,059**	372,248
	5,766,675	5,101,859

24. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Due to related parties (including advance) *(note a)*	**205,816**	593,984
Advance from contract customers *(note a) (note19)*	**272,985**	235,634
Advance from other customers	**226,831**	87,068
Payable of taxes other than income tax	**51,183**	(277,164)
Interest payables	**6,457**	7,779
Dividends payable	**10,540**	14,696
Other payables	**273,247**	144,100
	1,047,059	806,097

Note a: As at 31 December 2016, the Group's payables and advances of approximately RMB214,337,000 (31 December 2015: RMB735,950,000) were with related parties (note 32(b)).

Other payables are non-interest-bearing and have no fixed terms of repayment.

25. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS

	Effective interest rate (%)	Maturity	2016 RMB'000	2015 RMB'000
Current				
Bank borrowings:				
– unsecured	3.92%–5.60%	2016–2017	**468,450**	350,000
– secured	4.60%	2016	**–**	31,920
			468,450	381,920
Other loans:				
– unsecured	3.91%	2017	**50,000**	–
			50,000	–
Current portion of long term bank borrowings and other loans				
Bank borrowings – unsecured	4.37%–5.15%	2016–2017	**514,115**	612,582
Bank borrowings – guaranteed	4.28%	2017	**3,753**	–
Other loans- secured	5.02%–7.46%	2016–2017	**130,000**	20,000
			647,868	632,582
			1,166,318	1,014,502
Non-current				
Long term bank borrowings and other loans:				
Bank borrowings – unsecured	4.28%–5.15%	2017–2026	**3,292,831**	3,144,758
Bank borrowings – guaranteed	4.28%–4.41%	2018–2026	**44,926**	–
Other loans- secured	7.46%	2017	**–**	130,000
Other loans- unsecured	4.79%–5.75%	2017–2021	**128,080**	98,080
			3,465,837	3,372,838
			4,632,155	4,387,340
Interest-bearing bank borrowings and other loans denominated in				
– RMB			**4,632,155**	4,387,340

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

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

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

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

	2016	2015
	RMB'000	*RMB'000*
Trade and bills receivables *(note 20)*	**–**	35,497
Property, plant and equipment *(note 13)*	**166,164**	179,934
Intangible assets *(note 14)*	**16,973**	18,589

26. SHARE CAPITAL

Shares

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

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

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

26. SHARE CAPITAL *(CONTINUED)*

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

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

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

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

27. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2016 and 2015 are presented in the consolidated statement of changes in equity.

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests:		
Technologies & Engineering Company *(Note 1 (note 1))*	**44%**	49%
Nanjing Environmental Protection	**7.89%**	7.89%

	2016 RMB'000	2015 RMB'000
Profit for the year attributable to non-controlling interests:		
Technologies & Engineering Company	**46,776**	31,521
Nanjing Environmental Protection	**10,685**	11,138
Dividends paid to non-controlling interests of Nanjing Environmental Protection	**3,718**	17,000
Accumulated balances of non-controlling interests at the reporting dates:		
Technologies & Engineering Company	**93,605**	60,891
Nanjing Environmental Protection	**47,736**	39,541

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(CONTINUED)*

The following table illustrates the summarized financial information of Technologies & Engineering Company and Nanjing Environmental Protection. The amounts disclosed are before any inter-company eliminations:

2016	Technologies & Engineering Company *RMB'000*	Nanjing Environmental Protection *RMB'000*
Revenue	3,371,052	509,063
Total expenses	(3,274,174)	(373,641)
Profit for the year	96,878	135,422
Total comprehensive income for the year	98,982	135,422
Current assets	4,181,938	731,755
Non-current assets	403,055	557,507
Current liabilities	(4,185,769)	(484,788)
Non-current liabilities	(181,300)	(199,459)
Net cash flows from/(used in) operating activities	(5,889)	50,056
Net cash flows used in investing activities	(35,248)	(29,222)
Net cash flows used in financing activities	(71,419)	(27,537)
Effect of foreign exchange rate changes, net	2,153	–
Net decrease in cash and cash equivalents	(110,403)	(6,703)

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(CONTINUED)*

The following table illustrates the summarized financial information of Technologies & Engineering Company and Nanjing Environmental Protection. The amounts disclosed are before any inter-company eliminations: *(Continued)*

2015	Technologies & Engineering Company *RMB'000*	Nanjing Environmental Protection *RMB'000*
Revenue	4,394,508	506,051
Total expenses	(4,329,684)	(364,886)
Profit for the year	64,824	141,165
Total comprehensive income for the year	64,801	141,165
Current assets	3,833,561	677,592
Non-current assets	380,083	499,940
Current liabilities	(4,022,401)	(431,411)
Non-current liabilities	(72,300)	(244,962)
Net cash flows from operating activities	140,480	177,922
Net cash flows from/(used in) investing activities	18,916	(33,441)
Net cash flows used in financing activities	(95,620)	(184,962)
Effect of foreign exchange rate changes, net	1,282	–
Net increase/(decrease) in cash and cash equivalents	65,058	(40,481)

29. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of five years.

As at 31 December 2016 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Within one year	**32,251**	32,731
In the second to fifth years, inclusive	**71,018**	94,013
After five years	**–**	–
	103,269	126,744

30. CONTINGENT LIABILITIES

As at 31 December 2016 and 2015, the Group did not have any significant contingent liabilities.

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2016	2015
	RMB'000	*RMB'000*
Contracted, but not provided for	**1,099,206**	267,258

32. RELATED PARTY TRANSACTIONS

The Group is part of China Datang Group and had significant transactions with China Datang Group.

These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

In addition to the related party transactions disclosed elsewhere in the financial statements, the following is a summary of the significant related party transactions entered into the ordinary course of business between the Group and its related parties during the year.

(a) Significant related party transactions

	Notes	**2016** ***RMB'000***	2015 *RMB'000*
Sales of goods and rendering of services to China Datang Group	(i)		
Environmental protection and energy conservation solutions		**5,244,057**	4,772,570
Renewable energy engineering		**775,111**	2,492,681
Thermal power plants engineering general contracting		**–**	149,266
Others		**184,495**	318,668
		6,203,663	7,733,185

32. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

	Notes	2016 RMB'000	2015 RMB'000
Purchases of goods and receiving of services from China Datang Group			
Water supply and electricity supply	(i)	**509,426**	365,914
Ancillary services under the concession operations	(i)	**77,764**	63,379
Logistics services	(i)	**75,262**	231,153
Property lease	(ii)	**34,339**	31,044
Wind power electricity and other products	(i)	**214,971**	1,360,774
		911,762	2,052,264
Payment of financial leasing to a subsidiary of China Datang			
Datang Financial Lease Co., Ltd. ("**Datang Financial Lease**")	(iv)	**27,084**	30,407
Purchase of assets from China Datang Group			
Purchase of assets		**39,281**	2,843,658
Borrowing and loans from subsidiaries of China Datang			
China Datang Finance Co., Ltd. ("**Datang Finance**")		**–**	120,000
Datang Financial Lease		**–**	449,000
		–	569,000
Interest expense on a borrowing from a subsidiary of China Datang			
Datang Finance		**–**	10,084
Entrusted loans to a subsidiary of China Datang			
China Creative Wind Energy Co., Ltd.		**–**	115,000
Investment income on entrusted loans to a subsidiary of China Datang			
China Creative Wind Energy Co., Ltd.		**–**	5,550

32. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

All transactions with related parties were conducted at prices and on terms mutually agreed by the parties involved, which are determined as follows:

(i) Sales of goods and rendering of services to China Datang Group, purchases of goods and receiving of services from China Datang Group (excluding property leases)

a. Pricing policies for products: The pricing policies for products are as follows:

   (a) the bidding price where the bidding process is required; or

   (b) where no bidding process is involved, the market price.

b. Pricing policies for concession operations (desulfurization and denitrification) services: The desulfurization and denitrification tariffs under the concession operations services are determined in accordance with the price fixed by the government, while the price for by-products are determined based on the market price. In respect of the auxiliary services offered to the Group by China Datang Group under the desulfurization and denitrification concession operations, the price is determined in accordance with the costs of human resources in connection with the auxiliary services and related management expenses as well as relevant maintenance expenses for the equipment of power plants and with reference to the industrial average level.

c. Pricing policies for services other than concession operations services: The pricing policies for these kinds of services are as follows:

   (a) the bidding price where the bidding process is required; or

   (b) where no bidding process is involved, the market price.

d. Pricing policy for procurement of equipment: In respect of equipment procurement from China Datang Group, in most circumstances bidding procedures shall apply for the determination of the price. Only in exceptional circumstances, such as urgent purchases by the Group, bidding procedures can be skipped by the Group where the purchase price shall be determined by experts of the Group based on the fair market value and historical records of the procurement price.

(ii) Purchases of lease services from China Datang Group

Pricing policy: The rental for property leases is determined via negotiations between the parties with reference to the market rental for properties with similar conditions.

(iii) Trademark licensing agreement

As China Datang's sole platform for environmental protection and energy conservation solutions, the Company uses certain trademarks of China Datang.

Pricing policy: The trademark license is granted at nil consideration by China Datang.

32. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

(iv) Financial leasing

Datang Financial Lease provides financial leasing services to Nanjing Environmental Protection for procurement of a denitrification production line and various items of equipment.

Pricing policy: rentals paid by Nanjing Environmental Protection to Datang Financial Lease include (a) costs for procurement of such denitrification production line and various items of equipment and (b) interest. The interest is determined based on the benchmark interest rates for loans as implemented by the People's Bank of China.

(b) Outstanding balances with related parties

Other than those disclosed elsewhere in the financial statements, the outstanding balances with related parties at 31 December 2016 and 2015 are as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Cash and cash equivalents		
Datang Finance	**–**	1,200,797
Trade and bills receivables		
China Datang Group	**4,670,781**	3,891,774
Prepayments, deposits and other receivables		
China Datang Group		
Prepayments *(note a)*	**6,497**	1,656
Other receivables	**171,122**	221,946
	177,619	223,602
Other non-current assets		
China Datang Group	**67,537**	–
Construction contracts		
Due from contract customers included in construction contracts		
China Datang Group	**209,244**	250,028
Borrowings and loans		
Datang Financial Lease	**130,000**	150,000
Trade and bills payables		
China Datang Group	**752,617**	737,915
Other payables and accruals		
China Datang Group	**214,337**	735,950

32. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Outstanding balances with related parties *(Continued)*

Note a: The prepayment amount represented the prepayment related to the purchase of materials and equipment from related parties, which were trade in nature.

Except for the loans from Datang Financial Lease which were secured by certain property, plant and equipment and intangible assets as disclosed in Note 25, the remaining balances were unsecured.

(c) Transactions with other government-related entities in the PRC

The Group operates in an economic regime currently dominated by entities directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government and numerous government authorities and agencies (collectively referred to as "**government-related entities**"). China Datang, the parent and ultimate holding company of the Company, is a PRC state-owned enterprise and these government-related entities are also considered the related parties of the Group in this respect.

Apart from transactions with China Datang Group mentioned above, the Group also conducts some business activities with other government-related entities in the ordinary course of business. These transactions are carried out on terms similar to those that would be entered into with non-government-related entities.

The Group prices its services and products based on commercial negotiations. The Group has also established its approval process for sales of goods, provision of services, purchase of products and receiving of services and its financing policy for borrowings. Such approval process and financing policy do not depend on whether the counterparties are government-related entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's approval processes and financing policy, and what information would be necessary for an understanding of the potential effect of the relationship on the consolidated financial statements, the Directors are of the opinion that further information about the following transactions that are collectively significant is required for disclosure:

– ***Deposits and borrowings***

Except for the cash and cash equivalents deposited in Datang Finance and Wing Lung Bank in Hong Kong, the Group deposits most of its cash in government-related financial institutions, and also obtains short-term and long-term loans from these financial institutions in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China.

32. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Compensation of key management personnel of the Group

	2016	2015
	RMB'000	*RMB'000*
Short term employee benefits	**5,572**	4,921
Post-employment benefits	**380**	324
Total compensation paid to key management personnel	**5,952**	5,245

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

(e) As at 31 December 2016 and 2015, the Group entered into lease agreements with China Datang Group. The operating lease commitments are as follows:

	2016	2015
	RMB'000	*RMB'000*
Lease of properties	**103,269**	126,552

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of the Group's financial instruments as at the end of the reporting period are as follows:

Financial assets	31 December 2016 Loans and receivables RMB'000	31 December 2016 Available-for-sale financial investment RMB'000	31 December 2016 Total RMB'000	31 December 2015 Loans and receivables RMB'000	31 December 2015 Available-for-sale financial investment RMB'000	31 December 2015 Total RMB'000
Available-for-sale financial investment	–	5,000	5,000	–	5,000	5,000
Trade and bills receivables	6,375,700	–	6,375,700	4,977,538	–	4,977,538
Financial assets included in prepayments, deposits and other receivables	225,899	–	225,899	259,069	–	259,069
Cash and cash equivalents	3,012,614	–	3,012,614	1,443,963	–	1,443,963
Restricted cash	25,151	–	25,151	32,945	–	32,945
	9,639,364	5,000	9,644,364	6,713,515	5,000	6,718,515

Financial liabilities	31 December 2016 Financial liabilities at amortized cost RMB'000	31 December 2015 Financial liabilities at amortized cost RMB'000
Trade and bills payables	5,766,675	5,101,859
Financial liabilities included in other payables and accruals	296,278	517,750
Interest-bearing loans and borrowings	4,632,155	4,387,340
	10,695,108	10,006,949

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values and those carried at fair value, are as follows:

	Carrying amounts		Fair values	
	31 December 2016 *(RMB'000)*	31 December 2015 *(RMB'000)*	**31 December 2016 (RMB'000)**	31 December 2015 *(RMB'000)*
Financial liabilities				
Long term interest-bearing loans and borrowings *(note 25)*	**3,465,837**	3,372,838	**3,412,106**	3,315,854
	3,465,837	3,372,838	**3,412,106**	3,315,854

Management has assessed that the fair values of cash and cash equivalents, restricted cash, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, the current portion of interest-bearing loans and borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value disclosure of financial instruments. The corporate finance team reports directly to management. As at 31 December 2016 and 2015, the corporate finance team analysed the movements in the values of financial instruments and determined the major inputs applied in the valuation. The valuation was reviewed and approved by management.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- the fair values of the long term interest-bearing loans and borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for interest-bearing loans and borrowings as at 31 December 2016 and 2015 were assessed to be insignificant.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(CONTINUED)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

The Group did not have any financial assets and liabilities measured at fair value as at 31 December 2016 and 2015.

Assets for which fair values are disclosed

There were no assets for which fair values were disclosed as at 31 December 2016 and 2015.

Liabilities for which fair values are disclosed

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016				
Financial liabilities at amortised cost:				
Long term interest-bearing loans and borrowings	**–**	**3,412,106**	**–**	**3,412,106**
As at 31 December 2015				
Financial liabilities at amortised cost:				
Long term interest-bearing loans and borrowings	–	3,315,854	–	3,315,854

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents and restricted cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyze and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The management of the Company reviews and agrees policies for managing each of these risks and they are summarized below:

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

Management does not anticipate any significant impact on the changes in market interest rates because most of the Group's borrowings during the years ended 31 December 2016 and 2015 were at fixed interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank borrowings, restricted cash and cash and cash equivalents are stated at amortized cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

As at 31 December 2016, if there would be a general increase/decrease in the market interest rates by 10 basis points, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/increased by approximately RMB4,502,000 (31 December 2015: RMB3,596,000) and there would be no impact on other components of the consolidated equity, except for retained profits, of the Group. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at 31 December 2016 and 2015 and the exposure to interest rate risk had been applied to those financial instruments in existence at those dates. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in market interest rates over the period until the next annual year end.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(b) Foreign currency risk

Foreign currency risk primarily arises from certain significant foreign currency deposits, trade receivables, trade payables denominated in United States dollars ("**USD**") and Hong Kong dollars ("**HKD**"). The Group Treasury closely monitors the international foreign currency market on the change of exchange rates and takes these into consideration when depositing foreign currency deposits and borrowing loans. As at 31 December 2016, the Group only had significant exposure to USD and HKD.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 1% (2015:4%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sales.

	Increase/ (decrease) in USD rate	Increase/ (decrease) in profit after tax	Increase/ (decrease) in equity
	%	*RMB'000*	*RMB'000*
2016			
If RMB weakens against USD	**5**	**13,432**	**13,432**
If RMB strengthens against USD	**(5)**	**(13,432)**	**(13,432)**
2015			
If RMB weakens against USD	5	5,605	5,605
If RMB strengthens against USD	(5)	(5,605)	(5,605)

	Increase/ (decrease) in HKD rate	Increase/ (decrease) in profit after tax	Increase/ (decrease) in equity
	%	*RMB'000*	*RMB'000*
2016			
If RMB weakens against HKD	**5**	**95,939**	**95,939**
If RMB strengthens against HKD	**(5)**	**(95,939)**	**(95,939)**
2015			
If RMB weakens against HKD	5	–	–
If RMB strengthens against HKD	(5)	–	–

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(c) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and bills receivables and financial assets included in prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents and restricted cash are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the credit exposure to a single financial institution to an acceptable level.

As the Group's major customers are China Datang's subsidiaries or other state-owned enterprises, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. The senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 20 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(d) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The maturity profile of the Group's financial liabilities at 31 December 2016 and 2015, based on the contractual undiscounted payments, is as follows:

	31 December 2016				
	Within 1 year *RMB'000*	**1 to 2 years** *RMB'000*	**2 to 5 years** *RMB'000*	**More than 5 years** *RMB'000*	**Total** *RMB'000*
Short term interest-bearing loans and borrowings	**1,166,318**	**–**	**–**	**–**	**1,166,318**
Long term interest-bearing loans and borrowings	**–**	**665,297**	**1,703,254**	**1,097,286**	**3,465,837**
Trade and bills payables	**5,766,675**	**–**	**–**	**–**	**5,766,675**
Financial liabilities included in other payables and accruals	**296,278**	**–**	**–**	**–**	**296,278**
Interest payables for loans and borrowings	**201,160**	**169,479**	**327,745**	**53,657**	**752,041**
	7,430,431	**834,776**	**2,030,999**	**1,150,943**	**11,447,149**

	31 December 2015				
	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*
Short term interest-bearing loans and borrowings	1,014,502	–	–	–	1,014,502
Long term interest-bearing loans and borrowings	–	604,646	1,429,819	1,338,373	3,372,838
Trade and bills payables	5,101,859	–	–	–	5,101,859
Financial liabilities included in other payables and accruals	517,750	–	–	–	517,750
Interest payables for loans and borrowings	229,152	192,962	391,448	76,569	890,131
	6,863,263	797,608	1,821,267	1,414,942	10,897,080

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(e) Capital management

The Group's primary objectives for managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximize shareholders' value.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. 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 debts. No change was made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade and bills payables, other payables and accruals and interest-bearing loans and borrowings, less cash and cash equivalents and restricted cash. Capital includes the equity attributable to owners of the parent and non-controlling interests stated in the consolidated statement of financial position.

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary. The gearing ratios as at the end of the reporting periods were as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Trade and bills payables *(note 23)*	**5,766,675**	5,101,859
Other payables and accruals *(note 24)*	**1,047,059**	806,097
Interest-bearing loans and borrowings *(note 25)*	**4,632,155**	4,387,340
Less: cash and cash equivalents *(note 22)*	**(3,012,614)**	(1,443,963)
Less: restricted cash *(note 22)*	**(25,151)**	(32,945)
Net debt	**8,408,124**	8,818,388
Total equity	**6,415,354**	3,627,071
Capital and net debt	**14,823,478**	12,445,459
Gearing ratio	**57%**	71%

36. EVENTS AFTER THE REPORTING PERIOD

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

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company is as follows:

	2016	2015
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**5,473,786**	4,978,808
Intangible assets	**37,109**	20,749
Available-for-sale financial investment	**5,000**	5,000
Investments in subsidiaries	**400,227**	258,034
Other non-current assets	**151,422**	20,159
Total non-current assets	**6,067,544**	5,282,750
CURRENT ASSETS		
Inventories	**20,161**	46,740
Construction contracts	**37,988**	4,194
Trade and bills receivables	**2,914,576**	2,109,169
Prepayments, deposits and other receivables	**591,894**	405,007
Cash and cash equivalents	**2,466,498**	887,466
Total current assets	**6,031,117**	3,452,576
CURRENT LIABILITIES		
Trade and bills payables	**2,407,003**	1,931,587
Other payables and accruals	**407,826**	259,881
Interest-bearing bank borrowings	**502,065**	414,052
Income tax payable	**26,407**	30,350
Total current liabilities	**3,343,301**	2,635,870
NET CURRENT ASSETS	**2,687,816**	816,706
TOTAL ASSETS LESS CURRENT LIABILITIES	**8,755,360**	6,099,456
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**2,953,030**	2,914,458
Net assets	**5,802,330**	3,184,998
EQUITY		
Share capital	**2,967,542**	2,400,000
Reserves *(note)*	**2,834,788**	784,998
Total equity	**5,802,330**	3,184,998

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2015	47,735	91,897	560,077	699,709
Total comprehensive income	–	–	735,289	735,289
Conversion into a joint stock company with limited liability	1,974	(91,897)	(560,077)	(650,000)
Appropriation to statutory surplus reserve	–	73,529	(73,529)	–
As at 31 December 2015	49,709	73,529	661,760	784,998
As at 1 January 2016	**49,709**	**73,529**	**661,760**	**784,998**
Total comprehensive income	**–**	**–**	**900,086**	**900,086**
Appropriation to statutory surplus reserve	**–**	**90,009**	**(90,009)**	**–**
Capital contribution	**1,250,375**	**–**	**–**	**1,250,375**
Acquisition of equity interests from a subsidiary	**(671)**	**–**	**–**	**(671)**
Dividends declared to owners of the parent	**–**	**–**	**(100,000)**	**(100,000)**
As at 31 December 2016	**1,299,413**	**163,538**	**1,371,837**	**2,834,788**

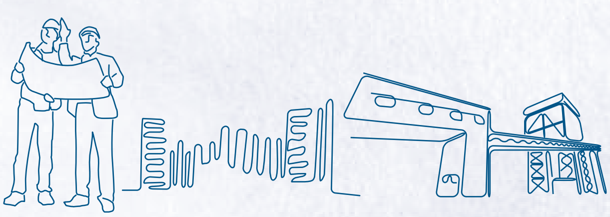
38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2017.

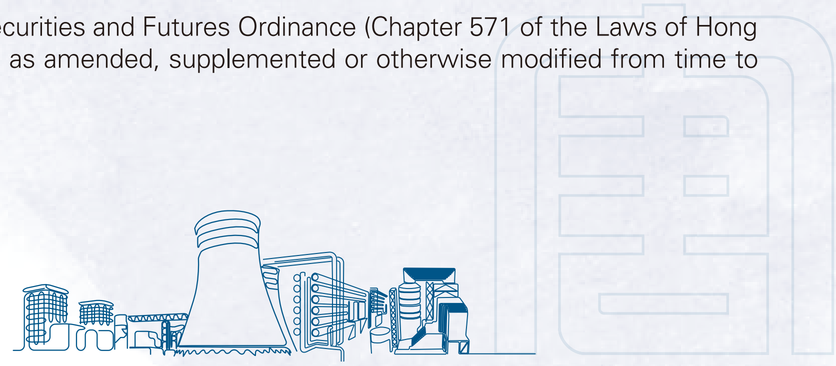
Definition and Glossary of Terms

"2016 AGM"	the annual general meeting of the Company for the year of 2016, to be held at 2:00 p.m. on Friday, 30 June 2017 at No. 120 Zizhuyuan Road, Haidian District, Beijing, the PRC
"Articles of Association"	the Articles of Association of the Company, as amended on 16 December 2016
"Board"	the board of Directors of the Company
"BOO"	build, own and operate, a construction and operation model of infrastructures
"China Datang"	China Datang Corporation (中國大唐集團公司), a state-owned enterprise established on 9 April 2003 in accordance with the PRC laws and the Controlling Shareholder and a promoter of the Company
"China Datang Group"	China Datang and its subsidiaries (excluding the Group)
"Company", "our Company" or "Datang Environment"	Datang Environment Industry Group Co., Ltd. (大唐環境產業集團股份有限公司) was converted to a joint stock limited company on 26 June 2015, unless otherwise stated, including its predecessor China Datang Group Environment Technology Co., Ltd. (中國大唐集團環境技術有限公司) (a limited liability company established on 25 July 2011 pursuant to the PRC law and was renamed to Datang Technology Industry Co., Ltd. (大唐科技產業有限公司) in September 2013 and further to Datang Technology Industry Group Co., Ltd. (大唐科技產業集團有限公司) in December 2013)
"Controlling Shareholder"	has the meaning ascribed under the Listing Rules, and in this annual report, refers to the controlling shareholder of the Company, China Datang
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulator responsible for supervising and regulating the Chinese securities market
"Datang Huayin"	Datang Huayin Electric Power Co., Ltd. (大唐華銀電力股份有限公司), a joint stock limited company established on 22 March 1993 in accordance with the PRC laws and a subsidiary of China Datang, which is listed on the Shanghai Stock Exchange (stock code: 600744)
"Datang Renewable"	China Datang Corporation Renewable Power Co., Ltd. (中國大唐集團新能源股份有限公司), a joint stock limited company established on 23 September 2004 in accordance with the PRC laws and a subsidiary of China Datang, which is listed on the Main Board of the Stock Exchange (stock code: 1798)

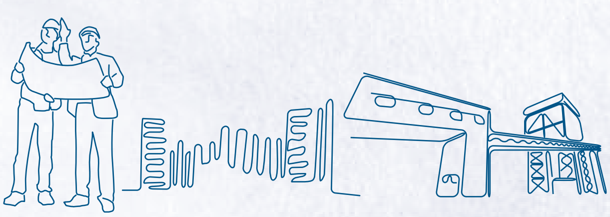
"Datang Finance"	China Datang Finance Co., Ltd. (中國大唐集團財務有限公司), a company incorporated in the PRC with limited liability, and a non-wholly owned subsidiary of China Datang
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary shares in the Company’s share capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB
“EMC”	a business model that the energy conservation companies provide energy-conservation services to customers according to the energy-conservation service contracts entered into with customers, and recover the investment and gain profit from the energy efficiency achieved upon the completion of energy conservation facilities refurbishment
“EP”	engineering and procurement
“EPC”	engineering, procurement and construction, a common form of contracting arrangement whereby the contractor is commissioned by the customer to carry out works, such as design, procurement, construction and trial operations, either through the contractor’s own employees or by subcontracting part or all of the works, and be responsible for the quality, safety, timely delivery and cost of the project
“Frost & Sullivan Report”	an independent research report issued by Frost & Sullivan on the market of environmental protection and energy conservation of coal-fired power plants in the PRC
“Group”, “our Group”, “we” or “us”	the Company and all or any of our subsidiaries (as the context so requires)
“H Share(s)”	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, subscribed for and traded in Hong Kong dollars and listed and traded on the Stock Exchange
“IEEE”	Institute of Electrical and Electronics Engineers
“Joint Company Secretary” or “Joint Company Secretaries”	joint company secretary/secretaries of the Company
“Latest Practicable Date”	19 April 2017, being the latest practicable date prior to the printing of this annual report for ascertaining certain information contained in this annual report



"Listing"	listing of our H Shares on the Main Board of the Stock Exchange
"Listing Date"	15 November 2016, on which dealings in the H Shares first commenced on the Stock Exchange
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers
"Nanjing Environmental Protection"	Datang Nanjing Environmental Protection Technology Co., Ltd. (大唐南京環保科技有限責任公司), a limited liability company established on 14 December 2011 in accordance with the PRC laws and a subsidiary of our Company
"NSSF"	National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會), an organization authorised by the State Council to be responsible for managing national social security fund
"PBOC" or "People's Bank of China"	the People's Bank of China
"PRC"	the People's Republic of China, unless it has specifically specified, it excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
"PRC GAAP"	Enterprise accounting standards and their interpretations issued by the Ministry of Finance of the PRC in 2006
"Prospectus"	the prospectus of the Company dated 3 November 2016 with respect to the listing of the Company on the Main Board of the Stock Exchange
"Reporting Period"	the year ended 31 December 2016
"RMB"	Renminbi, the current lawful currency of the PRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (國務院國有資產監督管理委員會), responsible for the management of state assets
"Senior Management"	senior management of the Company
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time



"Shareholder(s)"	holder(s) of the Share(s)
"Shares"	ordinary share(s) with nominal value of RMB1.00 each in the share capital of the Company, composed of the Domestic Shares and H Shares
"SNCR"	Selective non-catalytic reduction
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)" or "Supervisory Committee"	supervisor(s) or supervisory committee of the Company
"%"	per cent



LEGAL NAME OF THE COMPANY

大唐環境產業集團股份有限公司

ENGLISH NAME OF THE COMPANY

Datang Environment Industry Group Co., Ltd.*

DIRECTORS

Non-executive Directors

Mr. Jin Yaohua *(Chairman)*
Mr. Liu Chuandong
Mr. Liu Guangming
Mr. Liang Yongpan

Executive Directors

Mr. Deng Xiandong *(General Manager)*
Mr. Lu Shengli

Independent non-executive Directors

Mr. Ye Xiang
Mr. Mao Zhuanjian
Mr. Gao Jiaxiang

SUPERVISORS

Mr. Wang Yuanchun *(Chairman)*
Mr. Liu Liming
Mr. Liu Jianxiang *(Appointed in January 2017)*
Mr. Wang Hongjin *(Resigned in January 2017)*

LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Jin Yaohua

AUTHORIZED REPRESENTATIVES

Mr. Deng Xiandong
Mr. Zeng Bing *(Appointed in March 2017)*
Mr. Hu Xiaodong *(Resigned in March 2017)*

JOINT COMPANY SECRETARIES

Mr. Zeng Bing *(Appointed in March 2017)*
Ms. Wong Sau Ping *(ACIS; ACS)*
Mr. Hu Xiaodong *(Resigned in March 2017)*

COMMITTEES UNDER THE BOARD

Audit Committee

Mr. Gao Jiaxiang *(Chairman)*
Mr. Ye Xiang
Mr. Liu Chuandong

Nomination Committee

Mr. Jin Yaohua *(Chairman)*
Mr. Mao Zhuanjian
Mr. Gao Jiaxiang

Remuneration and Evaluation Committee

Mr. Ye Xiang *(Chairman)*
Mr. Mao Zhuanjian
Mr. Deng Xiandong

Strategy Committee

Mr. Deng Xiandong *(Chairman)*
Mr. Liu Guangming
Mr. Liang Yongpan

Investment Committee

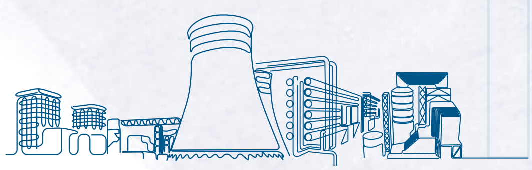
Mr. Mao Zhuanjian *(Chairman)*
Mr. Ye Xiang
Mr. Deng Xiandong

REGISTERED OFFICE

No. 120 Zizhuyuan Road, Haidian District,
Beijing, the PRC

HEAD OFFICE IN THE PRC

No. 120 Zizhuyuan Road, Haidian District,
Beijing, the PRC



PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower, 1 Tim Mei Avenue,
Central, Hong Kong

Ernst & Young Hua Ming LLP
16/F, Ernst & Young Tower, Oriental Plaza,
No. 1 East Chang An Ave., Dong Cheng District,
Beijing, the PRC

LEGAL ADVISORS

As to Hong Kong law

Kirkland & Ellis
26/F, Gloucester Tower, The Landmark,
15 Queen's Road Central, Central, Hong Kong

As to the PRC law

Zhong Lun Law Firm
31, 33, 36, 37/F, SK Building,
Jia-6 Jianguomenwai Avenue, Chaoyang District,
Beijing, PRC

PRINCIPAL BANKS

China Development Bank Corporation
No. 16 Taipingqiao Avenue, Xicheng District, Beijing, the PRC

China Construction Bank Corporation Beijing Xuanwu Sub-branch
No. 314 Guang'anmennei Street, Xicheng District, Beijing, the PRC

Industrial and Commercial Bank of China Limited Beijing Haidian Sub-branch
No. 100 Zhongguancun East Road, Haidian District, Beijing, the PRC

Agricultural Bank of China Beijing Xuanwu Sub-branch
Tower D, Global Finance & News Center, No. 1A Xuanwumenwai Avenue, Xicheng District, Beijing, the PRC

Bank of Beijing Co., Ltd. Shangdi Sub-branch
International Science and Technology Innovation Park, No. 1 Shangdi Xinxi Road, Haidian District, Beijing, the PRC

China Merchants Bank Co., Ltd. Fengtai Science Park Sub-branch
2/F, Building No. 3, No. 1 Zhonghe Road, Fengtai Science Park, Fengtai District, Beijing, the PRC

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

STOCK ABBREVIATION AND STOCK CODE

DATANG ENVIRO (1272)

COMPLIANCE ADVISOR

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

INVESTOR INQUIRIES

Investor Hotline:	+86 10 5838 9858
Fax:	+86 10 5838 9860
Website:	www.dteg.com.cn
E-mail:	ir@dteg.com.cn

* *For identification purpose only*