Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

§1 IMPORTANT

1.1 The board of directors (the "**Board**"), supervisory committee (the "**Supervisory Committee**"), directors (the "**Directors**"), supervisors (the "**Supervisors**") and senior management of Tianjin Capital Environmental Protection Group Company Limited (the "**Company**") confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of its contents.

This results announcement is the summary of the 2016 annual report of the Company and its subsidiaries (the "**Group**"). For detailed information, please read the 2016 annual report of the Group carefully.

1.2 PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the 2016 financial reports of the Group and have issued standard unqualified audit reports.

1.3 Mr. Liu Yujun, the Company's chairman, Ms. Peng Yilin, the officer in charge of the accounting function, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2016 annual report.

§2 COMPANY PROFILE

2.1 Basic information

Short name of the A shares	創業環保
Stock code of the A shares	600874
Stock exchange for listing of the A shares	Shanghai Stock Exchange
Short name of the H shares	Tianjin Capital
Stock code of the H shares	1065
Stock exchange for listing of the H shares	The Stock Exchange of Hong Kong Limited

2.2 Contact person and method

	Company Secretary to the Board	**Company Secretary in Hong Kong**	**Securities Affairs Representative**
Name	Niu Bo	Lo Wai Keung, Eric	Guo Fengxian
Correspondence address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, The People's Republic of China (the "**PRC**")	22/F, Worldwide House, Central, Hong Kong	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Telephone number	86-22-23930128	852-22180920	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	niu_bo@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

§3 ACCOUNTING DATA AND FINANCIAL INDICATORS

(For each of the three years ended 31 December 2016 as prepared in accordance with the PRC Accounting Standards For Business Enterprises)

3.1 Major accounting data

Unit: 0'000 Currency: RMB

Major accounting data	2016	2015	Increase/decrease for the period as compared to the same period last year (%)	2014
Operating income	**195,866.6**	193,420.6	1.26	182,807.9
Net profit attributable to the shareholders of the Company	**44,316.8**	33,053.7	34.08	30,816.8
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	**40,683.3**	29,723.7	36.87	29,128.3
Net cash flow from operating activities	**40,367.0**	231,067.9	-82.53	60,936.9

	As at the end of 2016	As at the end of 2015	Increase/decrease as at the end of the period as compared to the end of the same period last year (%)	As at the end of 2014
Net assets attributable to the shareholders of the Company	**474,437.7**	440,111.5	7.80	417,048.4
Total assets	**1,064,089.7**	1,004,930.2	5.89	1,085,948.2

3.2 Major financial indicators

Currency: RMB

Major financial indicators	2016	2015	Increase/decrease for the period as compared to the same period last year (%)	2014
Basic earnings per share (RMB/share)	**0.31**	0.23	34.78	0.22
Diluted earnings per share (RMB/share)	**0.31**	0.23	34.78	0.22
Basic earnings per share after deduction of extraordinary items (RMB/share)	**0.29**	0.21	38.10	0.20
Weighted average return on net assets ratio (%)	**9.71**	7.73	Increased by 1.98 percentage points	7.57
Weighted average return on net assets ratio after deduction of extraordinary items (%)	**8.91**	6.95	Increased by 1.96 percentage points	7.15

3.3 Extraordinary items

Unit: 0'000 Currency: RMB

	Amount in 2016	Notes (if applicable)	Amount in 2015	Amount in 2014
Profit/loss from disposal of non-current assets	-68.1		0.4	-181
Government grants recognized in current profit and loss, except for those closely related to business operation, in compliance with national policy and settled in certain amount which are constantly granted by government	4,336.0		4,113.7	2,317
Other non-operating income and expenses except for the above items	773.6		407.4	105
Effect on non-controlling interests	-147.6		-61.1	8
Income tax effect	-1,260.4		-1,130.4	-560
Total	3,633.5		3,330.0	1,689

§4 DIRECTORS' REPORT

I. OPERATION DISCUSSION AND ANALYSIS

With the concept of large environmental market of the environmental protection industry, the Company fully analysed the development trend of environmental protection industry, and actively grasped the policy and market opportunities. While fully exerting the operational advantages, the Company changed business philosophy, strengthened market development, made more efforts in the market development, conducted innovation and market development model; at the same time, the Company strengthened scientific and technological research and development to make it become the leading technology strength of the Company to develop from environmental protection industry to the whole industry chain; the Company adjusted the internal organizational structure and established a management system supporting the business development.

In 2016, under the guidance of the above business policy, the Company steadily carried out the following aspects of the work in accordance with the established business strategy and business plan:

1. To constantly exert operational advantages and ensure stable operation of projects

The new Environmental Protection Law and Water Pollution Prevention Action Plan were introduced to put forward the higher standards for sewage treatment and comprehensive treatment of water environment; stable and standard operation is the government's core requirements for water projects. During the reporting period, as an enterprise with rich experience in operation and management, the Company gave full play to the advantages of operation to ensure that the water projects were running in good condition and ensure the normal operation of the new energy heating and cooling supply projects, providing stable, standard and high quality services, building good image in the industry, and creating a good reputation.

2. To vigorously promote the market development while grasping the existing project upgrade opportunities

In 2016, in response to higher standards for the effluent water quality of local sewage treatment of Tianjin City, four sewage treatment plants of the Company in Dongjiao, Xianyanglu, Jingu, and Beicang of Tianjin central city started upgrading. The Company was responsible for investment and construction of sewage treatment plant upgrade and renovation projects in Jingu and Beicang, and construction of sewage treatment plant upgrade and renovation projects in Xianyanglu and Dongjiao invested by government as the agent. After the upgrade and renovation is completed, the Company will automatically obtain the franchise of the four sewage treatment plants and will continue to operate four sewage treatment plants during the original franchise period. The Company has jointly signed the Supplementary Agreement on Franchise Agreement with Tianjin Municipal Water Affairs Bureau and Tianjin City Construction and Communication Committee on the above-mentioned project. The relevant work has started in the reporting period.

During the reporting period, the Company strengthened efforts in the market development, and made innovation in the market development mode, carried out market expansion in various forms, and signed strategic cooperation agreements with the outstanding enterprises of the industry, including Tianjin Motimo Membrane Technology Co., Ltd., CSMDI and OriginWater to achieve complementary advantages and market development. During the reporting period, the Company won bid for three sewage treatment projects in Jieshou, Anhui Province, Ningxiang, Hunan Province and Karamay, Xinjiang Autonomous Region to enhance the business scale of water projects and expand the business scope to Hunan and Xinjiang. The Company won bid for the BOT project of Cultural Center (Phase I) Energy Station of Binhai New Area, Tianjin, which helped the Company to expand the new energy heating and cooling supply business from Tianjin Central City Area to Binhai New Area. The Company obtained a project of hazardous waste comprehensive disposal center in Yishui County, Linyi City, Shandong Province to make a breakthrough in the field of hazardous waste business.

3. To promote financing and provide protection for business development

In response to the needs of business expansion to support the Company's healthy and rapid development, the Company applied to issue corporate bonds with a total principal amount of up to RMB1.8 billion. The issuance plan was approved by the China Securities Regulatory Commission ("**CSRC**") and the Company has issued RMB700 million of corporate bonds during the reporting period. The remaining balance will be issued based on the actual need.

In order to optimize the capital structure and improve the profitability and anti-risk ability of the Company, the Company started the non-public issuance of A shares during the reporting period. The issuance plan was approved by the general meeting of shareholders of the Company. Due to the major adjustments made by the CSRC on the equity financing policy of the listed companies at the beginning of 2017, as of the date of this report, the proposal of the non-public issuance of A shares of the Company is being adjusted.

Tianjin Kaiying Technology Development Company Limited ("**Kaiying Company**"), a subsidiary of the Company, is responsible for the transformation of the Company's achievements in technology research and has a relatively independent business development scope and system. It has a broad business development prospect. In order to enhance the development capability of Kaiying Company, the Company carried out the restructuring of stockholding system of Kaiying Company and applied for quotation on the National Equities Exchange and Quotations System (the "NEEQ")during the report period, which has been approved by the NEEQ and is currently waiting for the approval of the Stock Exchange of Hong Kong Limited.

4. **To continue to strengthen scientific research and development work to highlight the leading role of science and technology**

During the reporting period, the Company continued to intensify the efforts of R&D and transformation of achievements in technology research; in addition to sewage and sludge related technology research and development subjects, it also strengthened efforts in the research of sponge city, soil repair, environmental water treatment and other aspects, and a progress has been made to provide technical support for improving the Company's comprehensive environmental services capability.

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

1. Analysis on the overall results of operations during the reporting period

In 2016, the Group recorded an operating revenue of RMB1,958.67 million, representing an increase of 1.26% as compared to that of last year. The operating costs were RMB1,150.01 million, representing a decrease of 4.32% as compared to that of last year. Net profit attributable to the Company was RMB443.17 million, representing an increase of 34.08% over last year. The increase in net profit was mainly due to an increase in the unit price of sewage treatment service fee of some subsidiaries, resulting in an increase in revenue over the same period of last year. At the same time, the amount of input tax deductions in the operating expenditure increased as compared to last year and the operating cost decreased as compared to last year. In addition, financial costs significantly reduced as compared to last year due to measures of downsizing the scale of loans and adjusting the outstanding loan interest rate.

2. Analysis of the principal business

During the reporting period, the Group's principal business types did not change significantly compared with the previous year and are still engaged in the sewage treatment and construction of sewage treatment plant business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business and transformation of achievements in technology research. It recorded operating income of RMB1,773.81 million and operating profit of RMB730.03 million, representing an increase of 8.57% over the previous year.

3. Other business

The Group's other business mainly includes the sewage treatment entrusted operation business via the technical service model, as well as the technical and engineering consulting business. During the reporting period, it recorded the income of RMB184.85 million, which was basically the same as that of last year.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

Analysis on changes in income statement and cash flow statement

Unit: 0,000 Currency: RMB

Item	Amount for the current period	Amount for the same period last year	Percentage change (%)
Operating revenue	195,866.6	193,420.6	1.26
Operating costs	115,001.2	120,194.4	-4.32
Sales expenses (Note 1)	996.4	316.6	214.72
Administrative expenses	11,648.1	10,536.6	10.55
Financial expenses	15,166.6	18,285.5	-17.06
Impairment losses on assets (Note 2)	5,205.7	3,158.9	64.79
Investment income (Note 3)	-364.0	-534.9	31.95
Non-operating expenses (Note 4)	126.0	3,494.5	-96.39
Non-controlling interests (Note 5)	2,473.8	1,394.2	77.44
Net cash flow from operating activities	40,367.0	231,067.9	-82.53
Net cash flow from investing activities	-14,248.0	-49,285.5	71.09
Net cash flow from financing activities	-40,864.5	-130,414.1	68.67
Research and development expenses	314.1	281.5	11.58

Note 1: As the number of market development staff in Kaiying Company increased, costs increased correspondingly.

Note 2: Provision is made for impairment of associates.

Note 3: The figure of the current period is higher than the same period last year, mainly due to the decrease in loss of the associate Tianjin International Machinery Co., Ltd. in the current period.

Note 4: The main reason for significant decrease this year compared with last year is that the subsequent expenditure of Jizhuangzi'relocation project was approximately RMB34 million in 2015 and there was no this item this year.

Note 5: Increase in net profit from non-wholly owned subsidiaries for the current period.

1. Analysis of income and costs

During the reporting period, the operating revenue of the Group was RMB1,958.67 million. The main source of operating revenue was from the principal businesses, including sewage treatment, tap water supply, recycled water business and transforming technological achievements, which achieved a revenue of RMB1,773.81 million, accounting for 90.6% of the Group's operating revenue. In particular, sewage treatment and construction of sewage treatment plants business achieved a revenue of RMB1,362.88 million, representing an increase of 5.5% as compared to last year which was mainly due to the rise in unit price of sewage treatment service fees after completion of upgrading and reconstruction of sewage treatment projects of certain subsidiaries; recycled water business generated a revenue of RMB188.62 million which was slightly higher as compared to last year due to the increase in water consumption of certain users; tap water supply business achieved a revenue of RMB66.85 million, representing an increase of 4.9% as compared to last year mainly due to an increase in water supply; the revenue from new energy cooling and heating supply business was RMB71.71 million which was almost the same as compared to last year; toll collection business generated a revenue of RMB63.88 million, which was slightly lower as compared to last year because of the influence from the replacement of business tax by value added tax.

During the reporting period, in addition to expanding the market, the principal businesses of the Company put effort in strengthening project operation including cost control and agreement maintenance, so to minimize operating costs, timely adjust the unit price of sewage treatment service fees, and secure an income from projects.

(1) Major business breakdown by industry, product and region

Unit: 0,000 Currency: RMB

Major business by industry

By industry	Operating revenue	Operating costs	Gross profit margin (%)	Increase/decrease in operating revenue as compared to last year (%)	Increase/decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Sewage treatment and construction of sewage treatment plants business	136,288	79,348	41.78	5.48	1.19	Increased by 2.47 percentage points
Pipe network connection and supply of recycled water business	18,862	13,340	29.28	1.74	5.10	Decreased by 2.26 percentage points
Toll collection business	6,388	712	88.85	-4.70	0	Decreased by 0.52 percentage points
Tap water supply business	6,685	4,913	26.51	4.93	9.86	Decreased by 3.30 percentage points
Cooling and heating supply business	7,171	4,455	37.87	2.75	4.65	Decreased by 1.13 percentage points
Transformation of technology research achievements (Note 1)	1,595	1,206	24.39	-65.87	-71.77	Increased by 15.81 percentage points
Others (Note 2)	392	405	-3.32	-86.48	-87.75	Increased by 10.68 percentage points

Major business by region

By region	Operating revenue	Operating costs	Gross margin (%)	Increase/ decrease in operating revenue as compared to last year (%)	Increase/ decrease in operating costs as compared to last year (%)	Increase or decrease in gross profit margin as compared to last year (%)
Northern China region (Note 3)	116,161	64,161	44.77	-6.93	-12.82	Increased by 3.74 percentage points
Southwest region (Note 4)	13,661	9,922	27.37	11.07	10.54	Increased by 0.35 percentage points
Eastern China region (Note 5)	24,077	14,776	38.63	31.91	29.97	Increased by 0.92 percentage points
Northwest region (Note 6)	12,779	8,453	33.85	35.08	14.11	Increased by 12.16 percentage points
Others	10,703	7,067	33.97	1.43	4.19	Decreased by 1.75 percentage points

Note 1: Due to the completion schedule of project(s), revenue and costs decreased as compared to the same period last year;

Note 2: "Others"mainly includes the sale of building materials business. During the reporting period, the revenue and costs significantly decreased due to decrease in sales volume as compared to the same period last year;

Note 3: Northern China region includes Tianjin region, Anguo Capital Water Company Limited ("**Anguo Company**") and Wendeng Capital Water Company Limited ("**Wendeng Company**");

Note 4: Southwest region includes Qujing Capital Water Company Limited ("**Qujing Company**") and Guizhou Capital Water Company Limited ("**Guizhou Company**"). Revenue increased because of the rise in unit price of Guizhou Company's sewage treatment service after completion of upgrading and reconstruction works, at the meanwhile, costs increased because of the improvement of discharge standard;

Note 5: Eastern China region includes Hangzhou Tianchuang Capital Water Company Limited ("**Hangzhou Company**") and Baoying Capital Water Company Limited ("**Baoying Company**"). Revenue increased because of the rise in unit price of sewage treatment service fees after the completion of upgrading and reconstruction works for Hangzhou Company's sewage treatment plant, while the operation costs increased as well due to the improvement of discharge standard;

Note 6: Northwest region refers to Xi'an Capital Water Company Limited ("**Xi'an Company**"). Revenue and costs increased due to the increase in volume of sewage treated and the rise in unit price of sewage treatment service fees after the completion of upgrading and reconstruction of Xi'an Company's sewage treatment plant.

(2) Analysis of production and sales volume

Not applicable

(3) Cost analysis

Unit: 0,000 Currency: RMB

By industry

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Sewage treatment and construction of sewage treatment plants	Labor	11,301	10.83	10,410	9.63	8.56	Nil
	Energy consumption (electricity)	19,786	18.96	20,934	19.36	-5.48	Nil
	Materials consumption	5,032	4.82	4,689	4.34	7.31	Nil
	Depreciation and amortization	25,296	24.23	24,252	22.43	4.30	Nil
	Other manufacturing costs	17,933	17.18	18,132	16.76	-1.10	Nil
	Subtotal	79,348	76.02	78,417	72.52	1.19	Nil
Tap water	Labor	715	0.69	658	0.61	8.66	Nil
	Energy consumption (electricity)	421	0.40	391	0.36	7.67	Nil
	Materials consumption	2,653	2.54	2,477	2.29	7.11	Nil
	Depreciation and amortization	989	0.95	806	0.75	22.70	Nil
	Other manufacturing costs	135	0.13	140	0.13	-3.57	Nil
	Subtotal	4,913	4.71	4,472	4.14	9.86	Nil

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Recycled water	Labor	1,390	1.33	1,331	1.23	4.43	Nil
	Energy consumption (electricity)	764	0.73	818	0.76	-6.60	Nil
	Materials consumption	578	0.55	677	0.63	-14.62	Nil
	Depreciation and amortization	3,610	3.46	3,820	3.53	-5.50	Nil
	Other manufacturing costs	1,426	1.37	1,753	1.62	-18.65	Nil
	Subtotal	7,768	7.44	8,399	7.77	-7.51	Nil
Recycled water pipe network connection	Construction cost	5,572	5.34	4,294	3.97	29.76	Note 1
	Subtotal	5,572	5.34	4,294	3.97	29.76	Note 1
Energy supply	Labor	643	0.62	544	0.50	18.20	Nil
	Energy consumption (electricity)	1,712	1.64	1,749	1.62	-2.12	Nil
	Materials consumption	50	0.05	59	0.05	-15.25	Nil
	Depreciation and amortization	1,443	1.38	1,412	1.31	2.20	Nil
	Other manufacturing costs	607	0.58	493	0.46	23.12	Nil
	Subtotal	4,455	4.27	4,257	3.94	4.65	Nil
Toll collection	Collection management fees	712	0.68	712	0.66	—	Nil
	Subtotal	712	0.68	712	0.66	—	Nil

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Transformation of achievements in technology research	Labor	580	0.56	822	0.76	-29.44	Note 2
	Expenditure for materials and facilities	467	0.45	2,588	2.39	-81.96	Note 2
	Other manufacturing costs	159	0.15	862	0.8	-81.55	Note 2
	Subtotal	1,206	1.16	4,272	3.95	-71.77	Note 2
Others	Product sale	338	0.32	2,749	2.54	-87.70	Note 3
	Other manufacturing costs	67	0.06	556	0.51	-87.95	Note 3
	Subtotal	405	0.38	3,305	3.05	-87.75	Note 3
Total		104,379	100.00	108,128	100.00	-3.47	Nil

Note 1: Due to increase in the amount of project settlement, business costs of pipe network connection increased accordingly;

Note 2: Due to schedule of projects, costs decreased significantly along with the decrease in revenue;

Note 3: In respect of sales of pipe materials, etc., costs decreased significantly along with the decrease in revenue due to decrease in sales volume.

(4) Major customers and major suppliers

Sales from the top five customers amounted to RMB1,282.40 million, accounting for 65.47% of total sales for the year; among which, sales from related parties was nil, accounting for 0% of total sales for the year.

Procurement from the top five suppliers amounted to RMB308.79 million, accounting for 33.21% of total procurement for the year; among which, procurement from related parties was nil, accounting for 0% of total procurement for the year.

2. Expenses

During the reporting period, the administrative expenses of the Group increased by 10.55% as compared to last year due to such reasons as establishment of new subsidiaries and organizational restructuring; during the reporting period, through reducing loan amount, adjusting the outstanding loans and other measures, the financial expenses of the Group decreased by 17.06% as compared to last year.

3. Research and development investment

Research and development investment

Unit: 0,000 Currency: RMB

Expensed research and development investment during the period	261.33
Capitalized research and development investment during the period	52.79
Total research and development investment	314.12
Percentage of total research and development investment on operating revenue (%)	0.16
Number of research and development personnel in the Company	73
Percentage of number of research and development personnel over the total number of personnel of the Company (%)	4.86
Ratio of capitalized research and development investment (%)	16.81

Explanation

During the reporting period, the main direction for research and development of the Group was developing the new technical process and applicable technologies in fields such as sewage and sludge treatment. The Group has completed the research and development plan set for the year 2016.

4. Cash flow

Unit: 0,000 Currency: RMB

Item	2016	2015	Increase/ Decrease	Percentage Change (%)	Remarks of changes
Net cash flow from operating activities	40,367.0	231,067.9	-190,700.9	-82.53	The amount for the period was lower than that of the same period last year mainly because the Company received sewage treatment service fee of RMB1,890 million owed by the Sewerage Company in the same period last year, while there was no such item in the period.
Net cash flow from investment activities	-14,248.0	-49,285.5	35,037.5	71.09	The amount for this period was higher than that of the same period last year mainly because in this period the Company received subsidies for upgrading and reconstruction projects, Jizhuangzi Sewage Treatment Plant relocation project and cooling and heating projects.
Net cash flow from financing activities	-40,864.5	-130,414.1	89,549.6	68.67	The amount for this period was higher than that of the same period last year mainly because repayment amount for this period was less than that of the same period last year, causing the decrease in net cash outflow.
Net increase in cash and cash equivalents	-14,745.5	51,368.3	-66,113.8	-128.71	Aggregate result of cash flows from operating, investment and financing activities.

(II) MAJOR CHANGES IN PROFITS CAUSED BY NON-PRINCIPAL BUSINESSES

Not applicable

(III) Analysis of assets and liabilities

1. Assets and liabilities

Unit: 0,000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Notes receivable	40	0	109.4	0.01	-63.44	Mainly due to the notes of subsidiaries was due for payment in the period.
Accounts receivable	181,542	17.06	123,835.2	12.32	46.6	It was mainly the increase in receivable sewage treatment service fees in the period.
Other receivables	15,087.2	1.42	7,453.1	0.74	102.43	It was mainly the increase in deposits on project bids in the period.
Long-term equity investments	0	0	2,599.8	0.26	-100	It was mainly due to the provision for total impairment of associated company in the period
Construction in progress	439.6	0.04	294.3	0.03	49.37	It was mainly the project and equipment fee for the new energy station in Binhai in the period.
Other non-current assets	18,774.4	1.76	805.1	0.08	2,231.93	It was mainly the payment for consideration for asset acquisition of Karamay project in the period
Accounts payable	10,723.9	1.01	8,259.9	0.82	29.83	It was mainly the project fund payable by Tianjin Water Recycling Company Limited ("**Water Recycling Company**").
Payroll payable	3,441.1	0.32	2,180.9	0.22	57.78	It was mainly the provision for bonuses of 2016
Dividends payable	143.8	0.01	3,242.6	0.32	-95.57	It was mainly because the dividends for major shareholders were paid in the period
Non-current liabilities due within one year	21,232.7	2	100,381.6	9.99	-78.85	It was mainly that the RMB700 million mid-term notes and bank loans due in 2016 were repaid
Other current liabilities	964.5	0.09	381	0.04	153.15	It was mainly due to provision for renewal and maintenance fee of equipment in sewage treatment plant in one year.
Bonds payable	139,431.3	13.1	69,492.5	6.92	100.64	It was mainly due to the issuance of RMB700 million corporate bonds in the period
Provision for other liabilities and charges	3,293.0	0.31	0	0	—	It was mainly the provision of renewal and maintenance fee of equipment in sewage treatment plant.

(IV) INDUSTRY ANALYSIS

1. Water utilities industry

With the increasingly stringent environmental protection standards, the existing sewage treatment plants have successively begun to upgrade in order to meet the higher discharge standards. The rise of standards of discharge quality will further increase the operating costs of the sewage treatment plants.

"National Plan for Construction of Urban Sewage Treatment and Recycling Facilities under the 13th Five-Year Plan" suggests that by the end of 2020, full coverage of urban sewage treatment facilities shall be achieved, and the black and odorous water of urban built districts above the prefecture level shall be controlled to be within 10%, and the urban sludge harmless disposal rate shall reach 75%, and the utilization rate of recycled water in cities and counties shall be further raised. The above planning objectives provide great opportunities for the market.

"Several Opinions on the Promotion of the Price Mechanism Reform" issued the State Council of the PRC requires that in accordance with the principle of "payment for pollution, fair burdens, compensation of costs and reasonable profit", the sewage treatment fees shall be reasonably raised and the urban sewage treatment fees should not be lower than the sewage treatment and sludge treatment and disposal costs.

The above industry policies give the enterprises in the water utilities industry a lot of room for development, but they also put forward a great challenge. As one of the enterprises with many years of experience in water utilities investment and operation, the Company will make every effort to make use of strengths and avoid weaknesses, and to seize the opportunity to grow and develop.

2. New energy industry

Following the promulgation of the "Ten Requirements Controlling Air Pollution", air pollution prevention and control has gained unprecedented attention. In order to reduce air pollution, Tianjin city advocated to replace traditional coal-fired boilers by natural gas or new energy. The new energy business will thus have huge room for development. With the opportunity of replacing coal with natural gas in various regions and encouraging the use of clean energy, the new energy industry will face greater demands and a more open market. The Company has four new energy cooling and heating supply projects in Tianjin, and has accumulated a lot of experience in operation and management regarding the new energy cooling and heating supply business. The above policy background will provide the Company with a huge expansion potential for its new energy cooling and heating supply business in the future.

Water Utilities Industry Analysis

1. Capacity and operation condition during the reporting period

Section	Capacity	Utilization rate of capacity (%)
Supply of tap water	200,000 tons/day	56.2
Sewage treatment	3,080,000 tons/day	94.4
Recycled water	240,000 tons/day	46.1

District	Capacity	Scale of new production during the reporting period	Planned capacity of projects under construction	Expected production time
Northern China	1,650,000 tons/day	—	Addition of 350,000 tons/day (Note 1)	Note 2
Southwest	390,000 tons/day	—	—	N/A
Northwest	270,000 tons/day (Note 3)	—	Addition of 150,000 tons/day	2019
Central China	320,000 tons/day	—	90,000 tons/day	Note 4
Eastern China	650,000 tons/day	—	—	N/A

Note 1: The planned addition of capacity for Jingu Sewage Treatment Plant is 100,000 tons/day; the planned addition of capacity for Beicang Sewage Treatment Plant is 50,000 tons/day; the planned addition of capacity for Dongjiao Sewage Treatment Plant is 200,000 tons/day.

Note 2: The expected production time for Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant is the year of 2018; the expected production time for Dongjiao Sewage Treatment Plant and Xianyanglu Sewage Treatment Plant is the year of 2019.

Note 3: During the report period, the total size of the additional Xinjiang Karamay Project was 150,000 tons/day, among which 50,000 tons of TOT mode will be put into operation in 2017. The BOT mode is 100,000 tons/day and it is expected to be put into operation in 2019.

Note 4: The additional capacity of Central China Anhui Yingshang is 40,000 tons/day, which is expected to put into operation in 2017; the additional capacity of Hunan Ningxiang is 50,000 tons/day, which is expected to put into operation in 2018.

2. Sales information

Unit: 0,000 Currency: RMB

Section	Sales revenue	Cost	Gross margin (%)	YoY Change (%)
Supply of tap water	6,685	4,913	26.51	-3.30
Sewage treatment	136,009	79,056	41.87	2.53
Recycled water	4,970	7,768	-56.30	24.32

(1) Section of supply of tap water

1.1 The average water price and pricing principle for each district, and adjustment during the reporting period

Unit: Yuan Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Qujing	1.688	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment during the reporting period	Price adjustment by the cost factor adjustment method

1.2 The average water price and pricing principle for each client, and adjustment during the reporting period

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.688	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment during the reporting period	Price adjustment by the cost factor adjustment method

(2) Section of sewage treatment

2.1 The average water price and pricing principle for each district, and adjustment during the reporting period

Unit: Yuan Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Northern China	1.50	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Southwest	1.15	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB1.01/m^3 to RMB1.15/m^3	Price adjustment by the cost factor adjustment method

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Northwest	1.31	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB1.26/m^3 to RMB1.31/m^3	Price adjustment by the cost factor adjustment method
Central China	0.93	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB0.89/m^3 to RMB0.93/m^3	Price adjustment by the cost factor adjustment method
Eastern China	1.29	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB0.96/m^3 to RMB1.29/m^3	Price adjustment by the cost factor adjustment method

2.2 The average water price and pricing principle for each customer type, and adjustment during the reporting period

Unit: Yuan Currency: RMB

Type of customer	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.24	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Note 1	Price adjustment by the cost factor adjustment method

Note 1: The above project customers are the governments of the project locations, and details of the average water prices, pricing principle and adjustment of water prices are shown in the above table 2.1.

3. Water quality of water sources of major water collection points

Water quality of water sources of water collection points of tap water: According to the monitoring data of January 2017 released by Qujing City Environmental Protection Bureau, the water quality category of the Xiaoxiang reservoir and Xihe reservoir used by the three tap water plants of Qujing Company is Category II indicating excellent water quality.

4. Supply of tap water

Water supply	Sales volume	Difference of production and sales volume (%)	YoY Change (%)	Reason	Impact on the Company's operation
41,150,000 cubic meters	41,150,000 cubic meters	0	4.8	With the continuous urban development, water used for residents' living and urban greening has increased	Nil

5. Significant capital expenditure

Unit: 0,000 Currency: RMB

Total amount of capital expenditure plan during the reporting period	Source of capital	Capital cost	Project status
596.48	Domestic bank loans RMB600 million, self-raised and other funds RMB235.59 million	0	Construction of upgrading and reconstruction project of the Jingu sewage treatment plant in progress
715.22	Domestic bank loans RMB327.31 million, self-raised and other funds RMB135.57 million	0	Construction of upgrading and reconstruction project of the Beicang sewage treatment plant in progress

Among which: Project status

Unit: 0,000 Currency: RMB

Project operation model	Total project budget	Project Progress	The amount invested during the investment period	Accumulated and actual investment amount	Project revenue	If there is any significant change or significant difference in the project progress, the reasons shall be stated and disclosed
Licensed operation (BOT)	129,847	Project at early stage	797.3	797.3	See "Major Non-equity Investments"	Nil

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in newly acquired water utilities and new energy PPP projects and for the establishment of the project companies. The total amount of equity investment in 2016 equals to RMB243.38 million, representing an increase of RMB28.38 million over that of last year.

(1) Major equity investment

(1) The Company invested RMB5 million to establish a wholly-owned subsidiary Shandong Capital Environmental Protection Technology Consultant Company Limited ("**Shandong Company**") for serving the third party's handling of the environmental pollution in Lushan Chemical Engineering Park and the smooth development of the environmental protection market in the whole Linyi area. With the approval of the Board of the Company, it has been decided to increase the capital by RMB77 million for Shandong Company to invest in construction and operation of the Yishui hazardous waste comprehensive disposal center project. As at the end of 2016, the first installment of capital increase of RMB10 million was completed. The total investment of the project is approximately RMB294.14 million and the first investment installment is approximately RMB224.73 million. After the capital increase, the registered capital of the Shandong Company will be increased to RMB82 million, and the Company still holds 100% of its equity.

(2) The Company invested RMB34.6 million to establish a wholly-owned subsidiary Tianjin Jiayuanbin Innovative Energy Technology Company Limited ("**Jiayuanbin**") for its investment and construction of the licensed operation Binhai New Area cultural center (Phase I) Energy Station Project. At present, Jiayuanbin has been established, and the project is in the progress of construction.

(3) The Company invested RMB53 million to establish a wholly-owned subsidiary Yingshang Capital Water Company Limited ("**Yingshang Company**") for its investment and construction of the licensed operation Yingshang County Chengnan sewage treatment BOT project. At present, Yingshang Company has been established, and the BOT project is in the progress of construction.

(4) On 14 September 2016, the Board of the Company gave consent to the establishment of a joint venture Changsha Tianchuang Capital Environmental Protection Company Limited ("**Changsha Company**") by the Company, Tianjin MOTIMO Membrane Technology Co., Ltd ("**MOTIMO**") and Changsha Shuntai Investment Management Co., Ltd ("**Shuntai Investment Company**") with the registered capital of RMB40.25 million. The Company invested RMB32.78 million (accounting for 81.43% of the total registered capital of the project company), MOTIMO invested RMB2.01 million (accounting for 5% of the total registered capital of the project company), and Shuntai Investment Company invested RMB5.46 million (accounting for 13.57% of the total registered capital of the project company), which are used for the licensed operation Ningxiang Economic and Technological Development Zone sewage treatment plant and its supporting network of PPP projects. At present, Changsha Company has been established, and the project is in the progress of construction.

(5) The Company established a joint venture Karamay Tianchuang Capital Water Company Limited ("**Karamay Company**") with Karamay City Construction Investment and Development Co., Ltd. with a registered capital of RMB120 million. The Company invested RMB108 million (accounting for 90% of the total registered capital of the project company), and Karamay City Construction Investment and Development Co., Ltd. invested RMB12 million (accounting for 10% of the total registered capital of the project company), which are used for the licensed operation Xinjiang Karamay City 2nd sewage treatment plant PPP project. At present, Karamay Company has been established, and the project is in the progress of acquisition and construction.

(6) To achieve the Company's new energy business integration and resource optimization, during the reporting period, the Company increased the share capital of Tianjin Jiayuanxing Innovative Energy Technology Company Limited ("**Jiayuanxing**"), a wholly-owned subsidiary of the Company with all of the equity of wholly-owned subsidiaries Tianjin Jiayuansheng Innovative Energy Technology Company Limited ("**Jiayuansheng**"), Tianjin Jiayuantian Innovative Energy Technology Company Limited ("**Jiayuantian**") and Jiayuanbin. At present, the capital increase has been completed, with Jiayuanxing registered capital increased to RMB191.95 million.

(2) Major non-equity investment

According to Tianjin's latest "Urban Sewage Treatment Plant Pollutant Discharge Standards", during the reporting period, the Company conducted the "expansion, upgrading and reconstruction"project to Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant. The total investment of the project is approximately RMB1,298 million, and the accumulated investment during the reporting period is RMB7.97 million. According to the plan, the project investment capital source is from the capital raised by equity financing by non-public issuance of A shares intended to be carried out by the Company. At present, the equity financing scheme has not yet been approved by the regulatory authorities. The Company temporarily invests in the construction with its own capital and bank loans. When the non-public issuance of A shares is completed, the capital raised will be used to replace the input capital.

At present, the "upgrading and reconstruction"project is in progress. During the "upgrading and reconstruction" period, effective measures will be taken to ensure that the daily operation of the original Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant will not be affected. Moreover, in accordance with the "Supplementary Agreement of the Licensed Operation Agreement", during the "upgrading and reconstruction" period, sewage treatment service fees will be charged in accordance with "Licensed Operation Agreement". Therefore, during the reporting period no significant impact has been caused on the operating results of the Company.

(3) Financial assets measured by fair value

N/A

(VI) DISPOSAL OF MAJOR ASSETS AND EQUITY INTERESTS

N/A

(VII) ANALYSIS OF MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS INVESTED

Unit: 0,000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; manufacturing, installation, debugging and operation of water recycling facilities etc.	10,000	Limited Company	100%	147,970	21,521	4,645
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training. And its technical services, technical training and other supporting services.	37,745	Limited Company	70%	105,883	58,457	7,319
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion of environment protection technology.	33,400	Limited Company	100%	69,296	34,467	4,003
Jiayuanxing	Tianjin	Development, consulting, service and transfer of energy conservation and energy technology; property management services	19,160	Limited Company	100%	49,270	26,821	1,846
Kaiying Company	Tianjin	Environmental engineering management and technical advice etc	2,000	Stock Limited Company	100%	6,022	4,076	1,303

(VIII) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

(I) Status and trends of the industry

On January 5, 2017, the State Council issued the "Comprehensive Working Plan for Energy Conservation and Emission Reduction under the 13th Five-Year Plan", which clarified the main objectives and key tasks regarding energy-saving and emission reduction works to be done under the 13th Five-Year Plan. The Working Plan has also comprehensively mapped out the energy-saving and emission reduction works to be done on a national scale. The Working Plan clearly states the goal of reducing the nation's energy consumption per RMB10,000 GDP by 15% by the year 2020 as compared to 2015, and to limit the total energy consumption to within 5 billion tons of standard coal by 2020. The total national emissions of chemical oxygen demand, ammonia nitrogen, sulfur dioxide and nitrogen oxide will be controlled at 20.01 million tons, 2.07 million tons, 15.80 million tons and 15.74 million tons, respectively, representing a decrease of 10%, 10%, 15% and 15% as compared to 2015. The total emissions of volatile organic compounds nationwide will be reduced by more than 10% as compared to 2015. The aforementioned objectives entail enormous space of development in the environmental protection market during the "13th Five-Year Plan". Specifically, the business areas the Company has engaged in, such as municipal sewage treatment, industrial wastewater treatment, sludge treatment, solid waste disposal and new energy usage will be greatly benefited. While the considerable market growth will surely intensify competition, the key to the successful development of enterprises will depend on their ability to provide integrated environmental services, openness to the market, investment and financing capabilities, cost control and technological R&D capabilities in the future.

(II) Development strategies of the Company

The Company has formulated its development strategy under the "13th Five-Year Plan" to be in line with its position as a comprehensive environmental service provider. In view of the future development trends in the environmental protection industry, the Company will continue to step up its market development efforts to consolidate its industry-leading position and brand advantages, while focusing on developing its integrated environmental services capabilities, as supported by the whole industrial chain, so as to gradually meet market demands with respect to "water" (water pollution) and "solid" (solid waste and soil pollution) treatments in the new era. At the same time, in order to support the aforementioned development concepts, the Company will adhere to its strategic direction of being "technology-led"– forming an evolving R&D program through different models, such as proprietary R&D and R&D partnerships, to gradually sharpen its advantages in sustainable environmental-protection technologies and environmental-protection product reserve. In addition, the Company will actively explore a variety of financing channels, keep an eye on mergers and acquisitions opportunities in the market, grow with partners to realize its principles of sharing, and contribute to the national development of ecological civilization.

(III) Operating plans

1. ***Progress of development strategy and operating plan of the Company during the reporting period***

   In 2016, the Company has adhered to the vision of "returning clean water to the world, delivering fresh air to the earth" to focus on promoting the upgrade of overall capabilities, so as to achieve the upgrading of capabilities of the comprehensive environmental service provider in terms of capital operation, low-cost financing, agreement maintenance, cost control, market development, integrated environmental service, resource integration, strategic implementation and risk prevention and control. The Company organized the production and operation activities based on the development strategy and operation plan set by the Board at the beginning of 2016. With efforts of all employees, as at the end of the reporting period, such development strategy and operation plan formulated at the beginning of the year have basically been completed. The targets set on revenue, fees and costs have also been achieved successfully.

2. 2016 is the first year for the "13th Five-Year Plan", the Company has completed the drafting of the 13th Five-Year Strategic Planning. Using our strategies as guidance and safeguarding our business by optimizing organizational structure, we joined hands to accomplish significant improvements in business performance. 2017 is an important year for the implementation of the Company's "13th Five-Year Plan" strategy. The Company has set the direction for its work to align with its transition towards a "comprehensive environmental service provider". It will fully implement the "technology-led, capital-driven, moderate scale, legal protection" work priorities and target "overcoming key challenges" as the core of its work. Through a comprehensive business layout, meticulous planning, solid progress, and a determination to break through the development bottleneck, we will be able to achieve significant progress in our work.

   In 2017, the Group is expected to handle 1,051.31 million cubic meters of sewage (excluding sewage handled under entrustment), produce 39.42 million cubic meters of tap water and sell 28.77 million cubic meters of recycled water; the estimated capital expenditure is RMB1.214 billion, the main projects include the Jingu sewage treatment plant, the Beicang sewage treatment plant upgrading project, the new water projects and the newly awarded energy station construction projects, etc. The specific implementation strategy is as follows:

(1) Continue to step up efforts in market development and strengthen the construction of business layout

Leveraging on the market development model of "regional business driven by spot bases", the Company will further improve the development system and strengthen the construction of the business layout. In order to further expand market share, the Company will give first place to independent development while cooperative development is complementary. With respect to project categories, water business will remain the focal point, but the Company will also pay attention to the development of new businesses, so as to facilitate the coordinated development of different business segments and promote the continuous optimization of the overall business structure in the enterprise.

(2) Implement the technology-led strategy and strengthen the management of scientific research

The "technology-led" strategic objectives will be further implemented to continue to provide support for scientific research products. R&D center will serve to promote the construction of a cooperative and open R&D platform where cooperative R&D will be carried out. In scientific research management, the Company seeks to establish a technology R&D direction that is driven by market demand. It also aims to promote the exploration of innovative technological R&D models, strengthen the management of technological R&D programs, and optimize the technological R&D incentive mechanism to comprehensively enhance the construction of the technological R&D team.

(3) Tighten the grip on operations management and facilitate intelligent and big data construction on the premise of operations standardization

The Company strives to promote intelligent operation and construction of big data systems on the premise of operations standardization, to encourage the upgrading and deepening of the advantages in business operations, and to strengthen the collection of data in order to enhance its reproducibility. Project operation and organization models will be continuously improved. With the premise of operations being up-to-standard, the Company will identify and evaluate operational risk factors to strengthen the formulation and exercise of contingency operation plans and advance the prevention and control of operational risks.

(4) Strengthen personnel training and incentive

As the Company's businesses expand, there will be a need to recruit new talents, such need is especially prominent in business areas such as R&D, construction, operations and scientific research. To build a team of professionals, the Company considers the introduction of new talent while reinforcing the existing talent hierarchy and gradually expanding the team through various forms of internal and external exchanges and trainings. To further propel innovation in the incentive mechanism, the Company looks to optimize the targeted assessment and incentive mechanism, and to further reform the staff incentives system by introducing different incentives mechanisms according to the distinctive job natures of different business areas, so as to ensure that the incentive mechanisms are effective given the internal and external balance is obtained.

(5) Strengthen party-building works and supervision, enhance internal audit and management of legal matters

Party-building works will be further strengthened to keep a foothold in capturing market demands and reinforce business advantages. Vision, mission and values of the Company will be combined to strengthen its corporate culture. The Company will rigorously uphold the integrity of the party, tighten discipline inspections and strictly perform supervisions against corruption. It will also strengthen internal audit of the enterprise through assessing internal controls and risks, and strengthen the management of the Company's legal matters to ensure the proper enforcement of legal and compliance reviews.

Under the guidance of the above operating strategies, the Company will focus on the following works on the basis of safe and quality operation in 2017:

(1) Improve the market development system; actively expand new projects in water utilities and environment; focus on acquisition opportunities in the secondary market; achieve the scale expansion in terms of the amount of water handled;

(2) Expedite the upgrade projects of the Group's Tianjin sewage treatment plant and the construction progress of the BOT projects in other cities, in a manner that is in accordance with the objectives of the plan;

(3) Continue to resolve the settlement issues regarding the fees receivable from sewage treatment services performed in Tianjin, and strive to establish a reasonable and sustainable payment mechanism;

(4) Commence works on mergers and acquisitions that aim to improve the industrial chain of the water market and enhance market competitiveness, and complete the initial analysis and selection of targets for mergers and acquisitions;

(5) Improve the management of R&D centers and expedite the base construction for technological R&D, so as to achieve substantial progress;

(6) Actively facilitate non-public offering works, the quotation of Kaiying Company and Jiayuanxing on the NEEQ and the introduction of strategic investors;

(7) Further adjust and optimize the structure of the organization and promote the use of an in-depth segmentation management model;

(8) Carry through the marketization reforms in the Group, and improve the market-oriented talent-selection, remuneration incentives, recruitment assessment and other mechanisms

3. Income, expenses and cost plan

In 2017, assuming no material changes in the State's existing policy direction conformed by the Group and the operating environment, the increase in the income from sewage treatment services fee will not exceed 7% as compared to 2016.

Cost control target

In 2017, resource and energy expenses and labour costs will continue to increase, and the new environmental law will impose tougher provisions on the industry and the operation cost of each water plant will increase. Assuming no material changes in the existing State's policy direction conformed by the Group and the operating environment, it is expected the Group's cost of sewage treatment business will increase by not more than 15% in 2017 as compared to that of 2016. Also, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

4. Technology R&D investment plan

In 2017, the Group will invest no less than RMB5.0024 million in technology research, development and reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc.

5. The Group's existing funding channels are basically able to satisfy the requirements of the Group's annual operation plan. In 2017, the Group plans to invest RMB1,171.57 million in engineering projects, which are mainly the expenses for the upgrading of sewage treatment plants and the construction fund for new energy projects. In 2017, the amount for fixed asset purchase plan of the Group will be approximately RMB42.23 million.

In 2017, funding demand of relevant projects will be obtained through the Group's existing financing channels of credit facilities, corporate bonds and equities. The Company will strive to enhance capital cooperation in joint projects through timely introduction of strategic investors and financial investors.

(IV) Possible risks

1. General risk factors

(1) Risk of government credit

Given the characteristic of licensed operation in sewage treatment projects, the capital source of sewage treatment service fee comes mainly from the special sewage-treatment fee charged by the government through the sales of tap water; the deficient amount will be supplemented by the finance of local government. The PPP packaging projects recently promoted usually include the investment and construction of infrastructure such as pipe networks. The investment of social capital is relatively large, and the investment return relies mainly on the payment of sewage treatment service fee from the government. Therefore, the uniqueness of capital source determines the importance and criticality of the government credit. Whether water utilities companies can recoup the investment as scheduled and obtain the expected rate of return depends on the level of government credit. In case the risk related to government credit occurs, the project companies will face cash flow problem, which may generate capital risks such as financial risks and financing risks.

(2) Risk of change in policy

Currently, the PRC is at the special stage of comprehensive deepening of reform. For a long period in the future, there will be transformative changes in policies related to economy, finance, prices, financial taxation and government functions, etc. The policy changes in prices and taxes will directly influence the adjustment of water price. Various possible problems relating to PPP model may appear gradually in 3 to 5 years. During the licensed operation period lasting for 30 years, as a social investor, one needs to focus on the risk of change in policy.

(3) Risk of operation and management

With the introduction of a series of energy-saving and emission reduction requirements under the nation's "13th Five-Year Plan", the standards for environmental governance will become more stringent. In order to meet the new standards, the upgrading demands from sewage treatment plants will gradually increase. Under this circumstance, the requirement for the ratio of up-to-standard water delivery will be heightened, implying more stringent regulatory risk in the future.

2. Risk control measures

(1) Protect the Company's lawful interests by making full use of laws and regulations

Strengthen the concept of corporate governance in accordance with the laws, make full use of its overall legal advisory system and protect lawful interests of the Company. Meanwhile, the Company calls for and supports the prompt establishment and perfection of "PPP Law" and "Licensed Operation Law" to further assure equality of the contracting parties, tighten up the performance assessment and benefit distribution mechanisms, and provide for the government obligations to pay according to contracts and the rights for investors to get reasonable returns under the laws, so as to reduce the risk related to government credit and the financial risk of the investors. The Company will focus on the selection of environment to invest in and the screening of investment projects while implementing investment review procedures strictly.

(2) Strengthen comprehensive risk management

Determine the target for comprehensive risk management; establish the institutional framework for comprehensive risk management to identify, analyse, assess and deal with possible risks hidden in different business links; improve the risk management system and establish a sound and comprehensive risk management system for the Company; improve its timing and efficiency of the comprehensive risk management of the Company; conduct the dynamic management and effective control over risks so as to reasonably ensure the achievement of the Company's strategic targets.

(3) Continue to raise the standards of operating management

As a listed company in the environmental protection field, the Company has control over production and operating risks in a timely manner through standardized management in accordance with relevant changes in policies. Specifically, our risk control measures include staff training, strengthening the legal consciousness of environmental protection and improving the management and control levels of technologies; strengthening the maintenance and protection of facilities for proper preservation of asset value and stable operation; perfecting the monitoring of quality, promoting control over the whole process to ensure the end products could meet the standards of discharge; developing water environment remedy plans and safe production plans, so as to ensure careful operation and the best environmental performance of the Company under force majeure conditions.

IV. FAILURE TO DISCLOSE AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS, SUCH AS STATE SECRETS AND BUSINESS SECRETS

Not applicable

V. THE BOARD'S PROPOSAL ON THE PROFIT APPROPRIATION OR TRANSFER OF CAPITAL RESERVE FUND TO SHARE CAPITAL

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2016 amounted to RMB443.17 million. After deduction of the statutory common reserve of RMB30.55 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the retained profit of RMB2,177.20 million at the beginning of the year, and less the distribution in 2016 of the 2015 cash dividend of RMB99.91 million, and less the transfer of retained profit to capital reserve of RMB16.80 million due to restructuring of a subsidiary, the actual profit distributable to the shareholders for this year amounted to RMB2,473.11 million. According to the profit appropriation policy of the Company, it will be proposed that a cash dividend for 2016 of RMB0.95 (gross tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB135.59 million, representing 30.60% of the available-for-distribution profit attributable to the Company realized in 2016. No transfer from the capital reserve fund to share capital was made for 2016. The appropriation proposal shall be submitted to the 2016 annual general meeting of the Company for consideration and shall be implemented after approval.

§ 5 FINANCIAL ACCOUNTING REPORT

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Rmb thousand unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Continuing operations			
Revenue	2(a)	1,773,814	1,753,667
Tax expense and surcharge		(45,670)	(33,289)
Cost of sales	3	(1,060,624)	(1,112,864)
Gross profit		667,520	607,514
Selling expenses	3	(9,964)	(3,166)
Administrative expenses	3	(129,343)	(105,366)
Other income	2(b)	78,627	59,870
Other gains - net	4	170,694	119,534
Operating profit		777,534	678,386
Finance income		23,457	26,853
Finance expenses		(175,123)	(209,708)
Finance expenses - net	5	(151,666)	(182,855)
Share of loss of investment accounted for using equity method		(3,640)	(5,349)
Profit before income tax		622,228	490,182
Income tax expense	6	(154,322)	(145,703)
Profit/total comprehensive income for the year		467,906	344,479
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		443,168	330,537
Non-controlling interests		24,738	13,942
		467,906	344,479
Earnings per share for profit attributable to the owners of the Company (in Rmb Yuan)			
– basic	7	0.31	0.23
– diluted	7	0.31	0.23

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December 2016	2015
ASSETS			
Non-current assets			
Land use rights		14,986	15,426
Property, plant and equipment		417,882	454,453
Intangible assets		6,219,001	6,244,750
Investment properties		97,590	101,263
Investments accounted for using the equity method		—	25,998
Available-for-sale financial assets		2,000	2,000
Long-term receivables		309,148	319,463
Other non-current assets		187,744	8,051
		7,248,351	7,171,404
Current assets			
Inventories		24,491	27,151
Trade receivables	9	1,815,820	1,239,446
Prepayments		153,198	139,727
Other receivables		150,872	74,531
Other current assets		49,107	47,168
Restricted cash		17,938	21,300
Cash and cash equivalents		1,181,120	1,328,575
		3,392,546	2,877,898
Total assets		10,640,897	10,049,302

	Note	As at 31 December 2016	2015
EQUITY			
Equity attributable to owners of the Company			
Share capital		1,427,228	1,427,228
Other reserves		844,040	796,687
Retained earnings		2,473,109	2,177,200
		4,744,377	4,401,115
Non-controlling interests		259,440	217,638
Total equity		5,003,817	4,618,753
LIABILITIES			
Non-current liabilities			
Borrowings		2,191,313	1,543,433
Deferred revenue		1,446,971	1,145,674
Deferred income tax liabilities		126,108	105,810
Other non-current liabilities		42,000	44,093
Provisions for other liabilities and charges		32,930	—
		3,839,322	2,839,010
Current liabilities			
Trade payables	10	107,239	82,599
Advances from customers		955,507	874,880
Wages payables		34,411	21,809
Income tax and other taxes payables		69,080	96,387
Dividend payable		1,438	32,426
Other payables and others		414,574	476,440
Borrowings		215,509	1,006,998
		1,797,758	2,591,539
Total liabilities		5,637,080	5,430,549
Total equity and liabilities		10,640,897	10,049,302

Notes to the condensed consolidated financial statement
(All amounts in thousand unless otherwise stated)

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ('HKFRS') and requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012 – 2014 cycle, and
- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from sales of pipeline connection for recycled water - the application of HKFRS 15 require that revenue and cost are recognized by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018.

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has no non-cancellable operating lease commitments, and the Group does not expect the new guidance to have a significant impact.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Segment information

An analysis of revenue and contributions to operating profit for the year by principal activities is as follows:

(a) Analysis of the Group's turnover and other income

	2016	**2015**
Revenue	1,773,814	1,753,667
Other income - net	78,627	59,870
Total	1,852,441	1,813,537

(b) Analysis of other income - net

	2016		**2015**	
	Income	**Cost**	**Income**	**Cost**
Contract operation service	138,707	(95,597)	121,708	(98,253)
Technical services	36,099	(4,403)	38,577	(8,076)
Rental	6,953	(4,884)	11,098	(5,705)
Others	3,093	(1,341)	9,156	(8,635)
	184,852	(106,225)	180,539	(120,669)

(c) Operating segment analysis

Management has determined the operating segments based on the reports reviewed by the managers operating meeting that are used to make strategic decisions for the purpose of allocating resources and assessing performance.

The meeting considers the business from both service and geographical perspectives. From a service perspective, management assesses the performance of processing of sewage water and construction of related facilities, recycled water and pipeline connection, heating and cooling services, tap water operations and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment is mainly the achievement of technology research. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Other services include contract operation services, lease of office building or apartments and provide technical services etcetera. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column.

The managers operating meeting assesses the performance of the operating segments based on a measure of net profit after tax, which is measured in the approach consistent with that in the financial statements.

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2016 and 2015 respectively is as follows:

(i) For the year ended 31 December 2016

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	772,110	222,473	368,299	188,616	71,707	66,851	15,946	146,439	1,852,441
Segment expense	(503,955)	(134,035)	(276,804)	(134,293)	(47,108)	(56,408)	(19,280)	(54,690)	(1,226,573)
Results before share of profits of an associate	268,155	88,438	91,495	54,323	24,599	10,443	(3,334)	91,749	625,868
Share of investment accounted for using the equity method									(3,640)
Profit before tax									622,228
Income tax expense									(154,322)
Profit for the year									467,906
Segment assets	4,852,703	1,044,587	2,131,136	1,523,983	599,954	222,883	19,043	246,608	10,640,897
Investment accounted for using the equity method	—	—	—	—	—	—	—	—	—
Total assets	4,852,703	1,044,587	2,131,136	1,523,983	599,954	222,883	19,043	246,608	10,640,897
Total liabilities	3,412,214	329,363	538,854	1,022,578	215,836	39,250	6,153	72,832	5,637,080
Other information									
– Interest income (Note 5)	16,685	529	2,047	3,953	60	18	—	165	23,457
– Interest expenses (Note 5)	(88,693)	(13,605)	(33,723)	(104)	(3,574)	(4,665)	—	(1,860)	(146,224)
– Depreciation	(123)	—	(99)	(36,994)	(214)	—	(814)	(5,851)	(44,095)
– Amortization	(125,344)	(47,190)	(80,942)	(213)	(14,273)	(9,886)	—	(1,174)	(279,022)
– Capital expenditures	(8,251)	(209,355)	(18,832)	(1,134)	(35,187)	—	—	(1,490)	(274,249)

(ii) For the year ended 31 December 2015

	Sewage processing and facility construction services								
	Tianjin plants	Hangzhou plant	Other plants	Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
Segment revenue	801,005	163,825	327,189	185,401	69,793	63,712	46,733	155,879	1,813,537
Segment expense	(560,144)	(117,772)	(287,569)	(132,454)	(46,766)	(52,703)	(48,682)	(71,916)	(1,318,006)
Results before share of profits of an associate	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	83,963	495,531
Share of investment accounted for using the equity method									(5,349)
Profit before tax									490,182
Income tax expense									(145,703)
Profit for the year									344,479
Segment assets	4,484,801	805,611	2,002,545	1,422,690	469,850	227,198	48,734	561,875	10,023,304
Investment accounted for using the equity method	—	—	—	—	—	—	—	25,998	25,998
Total assets	4,484,801	805,611	2,002,545	1,422,690	469,850	227,198	48,734	587,873	10,049,302
Total liabilities	2,877,487	210,755	690,793	1,134,419	206,453	54,493	22,825	233,324	5,430,549
Other information									
– Interest income (Note 5)	8,947	637	1,992	3,961	84	11	—	11,221	26,853
– Interest expenses (Note 5)	(117,868)	(16,825)	(48,220)	(246)	(6,471)	(5,710)	—	(2,080)	(197,420)
– Depreciation	(131)	—	(19)	(37,437)	(399)	—	(616)	(6,126)	(44,728)
– Amortization	(136,569)	(40,322)	(69,181)	(203)	(13,965)	(9,636)	(16)	(2,775)	(272,667)
– Capital expenditures	(188)	(84,920)	(150,106)	(2,831)	(92)	—	—	(2,732)	(240,869)

3 Expenses by nature

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	2016	**2015**
Amortisation of intangible assets and land use rights	279,022	272,667
Utilities	240,200	235,942
Employee benefit expenses	234,074	207,395
Repair and maintenance expenses	82,197	90,048
Raw materials and consumables used	62,371	86,718
Sewage mud processing fee	65,495	54,343
Cost of recycling water pipeline connection service	55,669	42,938
Depreciation of property, plant and equipment and investment properties	44,095	44,728
Factory environment, detection and fire prevention expenses	23,793	23,409
Impairment of intangible assets	16,795	18,278
Network maintenance costs	14,116	18,351
Provision of trade receivables	12,904	2,330
Travel, meeting and business entertainment expenses	11,835	9,265
Consulting service expenses	9,588	6,229
Construction cost of environmental equipments	7,131	29,005
Toll road management fee	7,120	7,120
Office expenses	5,173	4,704
Auditors' remuneration	4,200	4,200
Expenses of secretary of the board	3,905	3,185
Other taxes	3,264	14,213
Impairment of other current assets	—	10,981
Others	16,984	35,347
	1,199,931	1,221,396

4 Other gains - net

	2016	2015
VAT refund	142,637	74,319
Government grants	43,360	41,137
(Loss)/gain on disposal of property, plant and equipment	(681)	4
Impairment of investments accounted for using the equity method	(22,358)	—
Others	7,736	4,074
	170,694	119,534

5 Finance expenses- net

	2016	2015
Interest expenses of borrowings	146,959	197,420
Less: Capitalised interest	(735)	—
Net interest expenses	146,224	197,420
Less: Interest income	(23,457)	(26,853)
– long-term receivables	(10,860)	(11,089)
– bank deposits	(12,597)	(15,764)
Exchange loss (note(a))	24,582	7,394
Others	4,317	4,894
	151,666	182,855

(a) For the year ended 31 December 2016, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB25 million (2015: RMB7 million of the exchange loss).

6 Income tax expense

	2016	2015
Current income tax	134,024	126,671
Deferred tax	20,298	19,032
	154,322	145,703

7 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the Company of RMB443 million (2015: RMB331 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2015: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	2016	**2015**
Profit attributable to owners of the Company	443,168	330,537
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (RMB yuan)	0.31	0.23

8 Dividends

The dividend paid in 2016 and 2015 were RMB133 million (RMB0.07 per share) and RMB129 million (RMB0.07 per share) respectively. A dividend in respect of the year ended 31 December 2016 of RMB0.095 (gross including tax) per share, amounting to a total dividend of RMB136 million, is to be approved at the annual general meeting. These financial statements did not reflect this dividend payable.

9 Trade receivables

	31 December 2016	**31 December 2015**
Receivables from third parties	1,766,852	1,200,167
Receivables from related parties	71,371	48,778
	1,838,223	1,248,945
Less: allowance for impairment of trade receivables (note(b))	(22,403)	(9,499)
	1,815,820	1,239,446

(a) The aging of trade receivables is analysed below:

	31 December 2016		**31 December 2015**	
	Amount	**% of total balance**	**Amount**	**% of total balance**
Within 1 year	1,275,071	69	1,108,109	89
1 to 2 years	533,389	29	124,862	10
2 to 3 years	29,763	2	15,974	1
Total	1,838,223	100	1,248,945	100

As of 31 December 2016, trade receivables of RMB1,485 million (31 December 2015: RMB1,097 million) were past due but not impaired. These relate to several independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The past-due aging analysis of these trade receivables is as follows:

	31 December 2016		**31 December 2015**	
	Amount	**% of total balance**	**Amount**	**% of total balance**
Over due within 1 year	1,019,083	69	976,510	89
Over due 1 to 2 years	458,992	31	113,757	11
Over due 2 to 3 years	7,360	0	6,475	0
Total	1,485,435	100	1,096,742	100

On 31 December 2016, the total amount of trade receivables due from Qujing City Water General Company in respect of sewage processing fee and tap water fee was RMB115 million. The management estimated and provided RMB17 million (31 December 2015: RMB9 million) bad debt provision for those foreseeable uncollectible receivables with aging over 2 years. On 31 December 2016, the total amount of trade receivables due from Kaiying's customers in respect of sales of environmental protection equipment and contract operation was RMB5 million. The management estimated and provided RMB5 million (31 December 2015: nil) bad debt provision for those foreseeable uncollectible receivables with aging over 3 years.

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
2 to 3 years	16,992	76	9,499	100
Over 3 years	5,411	24	—	—
Total	22,403	100	9,499	100

(b) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2016	2015
At 1 January	(9,499)	(7,169)
Additions	(12,904)	(2,330)
At 31 December	(22,403)	(9,499)

The accrual and release of provision for impaired trade receivables have been included in 'administrative expenses' in the consolidated income statement.

(c) The carrying amounts of the Group's trade receivables are all denominated in RMB.

10 Trade payables

At 31 December 2016, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	31 December 2016	31 December 2015
Within 1 year	95,336	81,252
1 to 2 years	11,903	1,347
	107,239	82,599

Significant differences between financial information reported under Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC (the "PRC Accounting Standards for Business Enterprises")

There is no difference between the consolidated net profit and consolidated net assets prepared under HKFRSs and the PRC Accounting Standards for Business Enterprises.

§6 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the reporting period, the Company or its subsidiaries did not purchase, sell and redeem any securities of the Company or its subsidiaries.

§7 CORPORATE GOVERNANCE CODE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the year, in compliance with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

§8 MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of practice in respect of securities transactions conducted by the Directors with standards not lower than those prescribed in Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. During the reporting period, all Directors have complied with the Model Code for securities transactions conducted by the Directors.

§9 PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

§10 PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there is no restriction against such rights under the laws of the PRC.

§11 AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the audit committee (the "**Audit Committee**") to review and supervise the financial reporting procedures and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2016 with the Directors.

§12 REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in this preliminary announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

By Order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
29 March 2017

As at the date of this announcement, the Board of Directors comprises four executive Directors: Mr. Liu Yujun, Mr. Tang Fusheng, Ms. Fu Yana and Ms. Peng Yilin; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Gao Zongze, Mr. Guo Yongqing and Mr. Wang Xiangfei.