THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your H Shares in **Yunnan Water Investment Co., Limited***, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

YUNNAN WATER

雲南水務投資股份有限公司

Yunnan Water Investment Co., Limited*

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

(Stock code: 6839)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF REMAINING 50% INTEREST IN GALAXY NEWSPRING PTE. LTD.

** For identification purpose only*

24 February 2017

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"25 Management Shareholders"	Yang Fang, Hu Shake, Zhao Peng, Luo Yuxuan, Chen Xiangwen, Li Junfeng, Zhang Ruliang, Gui Hao, Huang Yi, Mi Shiyun, Luo Hongyan, Zhou Zhimi, Mo Cunyan, Chen Nianjuan, Yang Chuanyun, Liu Nanjiao, Li Guoqiang, Ma Dongjun, Xu Qiang, Dai Shaobo, Shi Jiayong, Que Yunlei, Hong Fang, Song Chunxia and Li Bo
"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Vendor in accordance with the terms and conditions of the SPA
"AIC"	the State Administration for Industry and Commerce of the PRC or the local counterpart authorized by it (or the authority having such power in the area under its administrative jurisdiction)
"Announcement"	the announcement of the Company dated 26 October 2016 in relation to the Acquisition and the transactions contemplated thereunder
"Beijing OriginWater"	北京碧水源科技股份有限公司 (Beijing OriginWater Technology Co., Ltd.*), a limited liability company established in the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300070.SZ)
"Board"	the board of Directors
"Business Day(s)"	means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Singapore, the PRC and Hong Kong
"Caiyun International"	Caiyun International Investment Limited (彩雲國際投資有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of YMCI
"Closely Allied Group"	the closely allied group of Shareholders comprising (i) Yunnan Province Water with its acting in concert parties (Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong); (ii) Beijing OriginWater; and (iii) Caiyun International, which collectively holds 650,326,162 Shares, representing approximately 54.50% of the total number of Shares in issue of the Company as at the date of the Latest Practicable Date

"Company"	雲南水務投資股份有限公司 (Yunnan Water Investment Co., Limited*), a joint stock limited liability company incorporated in the PRC, its H Shares are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition
"Completion Date"	the date of Completion, being the fifteenth Business Day after the date (such date not being after the Long Stop Date) on which all of the conditions precedent to the SPA are fulfilled or waived, or such other date as may be agreed by the parties to the SPA in writing
"Consideration"	the consideration in the sum of US$136,500,000 payable by the Purchaser to the Vendor in relation to the Acquisition
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	the issued ordinary shares at the nominal value of RMB1.00 per share in the share capital of the Company, which are subscribed or credited as fully paid in RMB
"Enlarged Group"	the Group as enlarged by the Acquisition
"Galaxy NewSpring Capital"	Galaxy NewSpring Capital Pte. Ltd, a company incorporated in Singapore and a wholly-owned subsidiary of the Target Company
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas listed foreign-invested ordinary shares of the Company with a nominal value of RMB1.00 per share in the share capital of the Company, which are listed on the Main Board of the Stock Exchange (stock code: 6839.HK) and subscribed for and traded in Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HWT"	Hyflux Water Trust, all the issued units of which are held by the Target Company as at the Latest Practicable Date
"HWTM"	Hyflux Water Trust Management Pte. Ltd, a company incorporated in Singapore and a wholly-owned subsidiary of Hyflux Guarantor and the trustee-manager of HWT

"Hyflux Guarantor"	Hyflux Ltd., a company incorporated in Singapore. Please refer to the paragraph headed "Information on Hyflux Guarantor" under the section headed "Information about the Counterparties" in this circular for further information on Hyflux Guarantor
"Hyflux NewSpring (Nantong)"	凱發新泉水務(南通)有限公司 (Hyflux NewSpring (Nantong) Co., Limited*) and a wholly-foreign owned enterprise established in the PRC
"Hyflux NewSpring (Rudong)"	凱發新泉污水處理(如東)有限公司 (Hyflux NewSpring Wastewater Treatment (Rudong) Co., Limited*) and a wholly-foreign owned enterprise established in the PRC
"Hyflux Related Undertakings"	the related parties of Hyflux Guarantor
"Hyflux Utility"	Hyflux Utility Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of HWTM which holds the entire issued share capital of Hyflux Utility on trust for HWT
"Hyflux Utility (YK)"	Hyflux Utility (YK) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of HWTM which holds the entire issued share capital of Hyflux Utility (YK) on trust for HWT
"Latest Practicable Date"	21 February 2017, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Loan Agreement"	the loan agreement dated 21 September 2016 entered into between the Vendor and Galaxy NewSpring Capital
"Long Stop Date"	the date falling six months from the date of the SPA which may be extended once by the Vendor at its discretion and may be further extended by consent between the parties to the SPA (which consent shall not be unreasonably withheld, delayed or conditioned), provided however, that such date shall be the twentieth Business Day after the expiry of the Termination Notice Period if all the conditions precedent in the SPA are fulfilled or waived prior to the expiry of the Termination Notice Period (if applicable)

"Mitsui"	Mitsui & Co., Ltd, a limited liability company incorporated in Japan, the shares of which are listed on the Tokyo Stock Exchange (stock code: 8031.JP)
"MOFCOM"	the Ministry of Commerce of the PRC or the local counterpart authorized by it (or the authority having such power in the area under its administrative jurisdiction)
"Nantong Tianyuan New Energy"	南通天元新能源投資有限公司 (Nantong Tianyuan New Energy Investment Co., Ltd.*) and a company established in the PRC
"Payables"	the outstanding payables due from the Target Company to the Hyflux Related Undertakings for an aggregate amount of US$25,004,411 under the relevant agreements entered into between each of the Hyflux Related Undertakings and the Target Company
"PRC" or "China"	the People's Republic of China, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"Previous Acquisition"	the acquisition in relation to the conditional sale and purchase agreement dated 28 July 2016 entered into among the Purchaser, the Company and Mitsui in relation to the acquisition of 50% interest in the Target Company, and which was completed on 26 September 2016. Please refer to the Company's announcement dated 28 July 2016 for details
"Purchaser" or "Yunnan Water Hong Kong"	Yunnan Water (Hong Kong) Company Limited, a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
"Purchaser's Group"	the Purchaser and its subsidiary, holding company or any subsidiary of that holding company other than the Target Company or any subsidiary of the Target Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	the 195,296,428 ordinary shares in the capital of the Target Company legally and beneficially owned by the Vendor, representing 50% of the entire issued share capital of the Target Company as at the Latest Practicable Date
"SAFE"	the State Administration of Foreign Exchange of the PRC or the local counterpart or bank authorized by it

"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council or the local counterpart authorized by it (or the authority having such power in the area under its administrative jurisdiction)
"Share(s)"	the Domestic Shares and/or the H Shares
"Shareholder(s)"	the holder(s) of Share(s)
"SPA"	the conditional sale and purchase agreement dated 26 October 2016 entered into among the Purchaser, the Vendor, Hyflux Guarantor and the Company in relation to the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	supervisor(s) of the Company
"S$"	Singapore dollars, the lawful currency of Singapore
"Target Company"	Galaxy NewSpring Pte. Ltd., a limited liability company incorporated in Singapore
"Target Group"	the Target Company and its subsidiaries
"Termination Notice Period"	three Business Days upon the expiry of a period of sixty days from the date on which the breach of the warranties given by the Vendor under the SPA and the amount of impact on the net asset value (i) is or is deemed to be acknowledged and agreed by the Vendor or (ii) is determined by the accounting firm in accordance with the SPA, on or before Completion
"US$"	United States dollars, the lawful currency of the United States of America
"Vendor"	Hyflux Asset Management Pte. Ltd., a limited liability company incorporated in Singapore

"YMCI"	雲南省城市建設投資集團有限公司 (Yunnan Metropolitan Construction Investment Co., Ltd.*), a limited liability company incorporated in the PRC, which is the sole shareholder of Yunnan Province Water and one of the controlling shareholders of the Company
"Yunnan Province Water"	雲南省水務產業投資有限公司 (Yunnan Province Water Industry Investment Co., Ltd.*), a limited liability company incorporated in the PRC, which is one of the controlling shareholders of the Company
"%"	per cent.

YUNNAN WATER

雲南水務投資股份有限公司
Yunnan Water Investment Co., Limited*

(a joint stock limited liability company incorporated in the People's Republic of China)
(Stock code: 6839)

Executive Directors:
Mr. Yu Long *(Chief Executive Officer)*
Mr. Liu Xujun *(Deputy Chief Executive Officer)*
Mr. Huang Yunjian *(Deputy Chief Executive Officer)*
Mr. Dai Richeng

Non-executive Directors:
Mr. Xu Lei *(Chairman)*
Mr. Jiao Jun
Mr. He Yuanping
Mr. Feng Zhuangzhi

Independent Non-executive Directors:
Mr. Kwok For Chi
Mr. Hu Song
Mr. Ma Shihao
Mr. Ren Gangfeng

Registered office and principal place of business in the PRC:
15th and 16th Floor, Block A
He Cheng International
1088 Haiyuan Zhong Road
Gaoxin District
Kunming
Yunnan

Principal place of business in Hong Kong:
Suite 5007, 50/F, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

24 February 2017

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF REMAINING 50% INTEREST IN GALAXY NEWSPRING PTE. LTD.

INTRODUCTION

Reference is made to the Announcement. On 26 October 2016, the Vendor, the Purchaser, Hyflux Guarantor and the Company entered into the SPA, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Shares at the Consideration.

The purpose of this circular is to provide you with, among other things, (i) details of the SPA and the transactions contemplated thereunder, (ii) further details of the Acquisition; (iii) the financial information of the Group; (iv) the financial information of the Target Company; (v) the unaudited pro forma financial information of the Enlarged Group; and (vi) other information as required under the Listing Rules.

THE SPA

The principal terms of the SPA are summarized as follows:

Date: 26 October 2016

Parties:

(i) the Purchaser

(ii) the Vendor

(iii) Hyflux Guarantor (as the guarantor of the Vendor)

(iv) the Company (as the guarantor of the Purchaser)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, Hyflux Guarantor and their respective ultimate beneficial owners were third parties independent of the Company and its connected persons (as defined in the Listing Rules) as at the Latest Practicable Date.

Sale Shares

The Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Shares, representing 50% of the total issued share capital of the Target Company as at the Latest Practicable Date, free from encumbrances, and together with all associated rights and benefits attaching and accruing thereto on or after Completion.

Consideration, payment terms and basis of determining the Consideration

The Consideration shall be US$136,500,000 and shall be paid in the following manner:

(i) as to US$10,000,000 which has been paid by the Purchaser in cash to the Vendor upon the entering into of the SPA as deposit (the "**Deposit**") and part payment of the Consideration; and

(ii) as to US$126,500,000 (being the Consideration less the Deposit) payable in cash by the Purchaser to the Vendor upon Completion.

The Consideration was agreed after negotiations between the Purchaser and the Vendor upon arm's-length negotiations and having regard to a number of relevant factors, including (i) the scale of, and the economic benefits attributed to, the water supply, wastewater treatment and reclaimed water plants operated by the Target Group; (ii) the concession rights in respect of the existing projects of the Target Group; (iii) the extensive geographical coverage of the business of, and the varieties of projects undertaken by, the Target Group; and (iv) the newly-built projects of the Target Group.

The Consideration will be satisfied by internal resources of the Group.

Payables

Pursuant to the terms of the SPA, the Purchaser shall pay 50% of the Payables to the Vendor upon the entering into of the SPA and the remainder of the Payables to the Vendor upon Completion.

Conditions precedent

Completion shall be subject to the fulfillment or waiver (as the case maybe) of the following conditions precedent:

(i) as of the Completion Date, the Vendor shall have executed and followed all the covenants and undertakings made under the SPA in all aspects to the extent that such covenants and undertakings made under the SPA are required to be executed and followed by it prior to or on the Completion Date;

(ii) the Vendor and Hyflux Guarantor shall have obtained approval from its shareholders, to the extent required by its constitutional documents, to effect the execution, completion and performance of the obligations and terms under the SPA;

(iii) each of the Purchaser and the Company shall have obtained approval from its shareholders, to the extent required by its constitutional documents, and in the case of the Company, the Listing Rules, to effect the execution, completion and performance of the obligations and terms under the SPA; and

(iv) the Purchaser shall have procured that Galaxy NewSpring Capital makes full repayment of the loan in the sum of US$56,142,966.96 and any other amount payable by Galaxy NewSpring Capital under the Loan Agreement.

The Purchaser may at any time waive the condition set out in paragraph (i) (but not (ii)) above in whole or in part and conditionally or unconditionally by notice in writing to the Vendor. The Vendor may at any time waive the condition set out in paragraph (iv) (but not (iii)) above and conditionally or unconditionally by notice in writing to the Purchaser.

If the conditions are not fulfilled on or before the Long Stop Date (unless waived), then the provisions of the SPA (other than certain surviving provisions) shall from such date cease and determine and no party to the SPA shall have any claim against any other party to the SPA for costs, damages, compensation or otherwise, save in respect of any antecedent breach of the SPA. In the event that the Vendor is unable to fulfill the conditions set out in paragraph(s) (i) and (ii) above (unless expressly waived by the Purchaser), the Vendor shall refund the Deposit without interest to the Purchaser in immediately available funds within three Business Days after the date of termination of the SPA. In the event that the condition set out in paragraph (iii) or (iv) is not fulfilled or waived (as the case maybe) by the Vendor, the Deposit shall not be refunded to the Purchaser.

In order to fulfill the condition set out in paragraph (iv) above, the Purchaser has extended a loan of US$56,142,966.96 to Galaxy NewSpring Capital for it to repay the outstanding loan due to the Vendor by Galaxy NewSpring Capital under the Loan Agreement.

As at the Latest Practicable Date, all conditions above had been fulfilled.

Completion

Since all the conditions under the SPA had been fulfilled as at the Latest Practicable Date, Completion shall take place on the Completion Date, which is expected to be in or about early March 2017.

Immediately before Completion, through holding 50% interest in the Target Company, the Target Company is an associated company of the Company and as such, its financial results, assets and liabilities have not been consolidated into the accounts of the Group. Upon Completion, the Target Company will be a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of which will be consolidated into those of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is one of the leading integrated service providers in urban wastewater treatment and water supply industries in Yunnan Province of the PRC. The principal businesses of the Group include (i) providing water supply, wastewater treatment and solid waste treatment in various PRC cities and South East Asia; (ii) investment, construction and management of environmental projects; and (iii) sales of equipment and other environmental related services. The corporate strategy of the Group is to operate its businesses based in Yunnan Province while continuing to seek investment opportunities to expand its business to other regions for a stable source of income.

As at the Latest Practicable Date, the Target Company, directly or indirectly, owned the legal and beneficial or beneficial interest in a number of principal operating subsidiaries incorporated in Singapore, Hong Kong, the British Virgin Islands and the PRC and operated 24 water supply, wastewater treatment and reclaimed water plants in various provinces and municipalities in the PRC, which included Jiangsu Province, Liaoning Province, Zhejiang Province, Hebei Province, Shandong Province, Tianjin City, Chongqing City, Hunan Province, Anhui Province and Jiangxi Province.

Based on the concession agreements (the "**Concession Agreements**") entered into between the Target Group and the relevant government authorities, the total construction capacity for the water supply, wastewater treatment and reclaimed water plants operated by the Target Group under such concession agreements is 1,540,000 tonnes per day. For further details of the Concession Agreements, please refer to the sub-paragraph headed "Information of the Target Group" in the paragraph headed "Information about the Counterparties" below. As at the Latest Practicable Date, the capacity for the operating plants had reached 920,000 tonnes per day and the capacity for the plants to be built or under construction was 620,000 tonnes per day. In light of the growing trend in the merger and acquisition activities of companies operating in the environmental industry in the PRC, the Board is of the view that the Acquisition would enable the Group to expand its geographical coverage and at the same time, to expand rapidly the water supply and drainage network and ensure a stable and sustainable growth of the Group's income. Further, the Acquisition would also enable the Group to fully utilize its capital and technologies as well as leverage its experience in project management to reinforce the Group's position as an integrated service provider in water supply and drainage business. Upon Completion, the Group will have a more balanced business portfolio in terms of geographical coverage and thereby, enhancing the Group's overall competitiveness in the water industry in the PRC.

After taking the above factors into account, the Directors consider that the terms and conditions of the SPA are fair and reasonable and are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE COUNTERPARTIES

Information on the Vendor

The Vendor is a limited liability company incorporated in Singapore, which is primarily engaged in investment holding. As at the Latest Practicable Date, the Vendor was indirectly wholly-owned by Hyflux Guarantor and it held 50% of the entire issued share capital of the Target Company.

Information on Hyflux Guarantor

Hyflux Guarantor is a limited liability company incorporated in Singapore, the shares of which are listed on the Singapore Stock Exchange (stock code: 600.SG). Hyflux Guarantor is a global leader in sustainable solutions, focusing on the areas of water and energy. Headquartered and listed in Singapore, Hyflux Guarantor has operations and projects in Southeast Asia, China, India, the Middle East, Africa and the Americas. Hyflux Guarantor's track record includes Singapore's first water recycling plant and some of the world's largest seawater reverse osmosis desalination plants in Algeria, China and Singapore. Hyflux Guarantor indirectly holds the entire issued share capital of the Vendor.

Information on the Target Group

The Target Company is a limited liability company incorporated in Singapore. The principal businesses of the Target Group include carrying out the origination, investment, development, construction, operation and maintenance of water supply, wastewater treatment and reclaimed water plants.

As at the Latest Practicable Date, the Target Company, directly or indirectly, owned the legal and beneficial or beneficial interest in a number of principal operating subsidiaries incorporated in Singapore, Hong Kong, the British Virgin Islands and the PRC and operated 24 water supply, wastewater treatment and reclaimed water plants in various provinces and municipalities in the PRC, which include Jiangsu Province, Liaoning Province, Zhejiang Province, Hebei Province, Shandong Province, Tianjin City, Chongqing City, Hunan Province, Anhui Province and Jiangxi Province. As at the Latest Practicable Date, the legal interests of 5 of such subsidiaries incorporated in Hong Kong and the British Virgin Islands, which in turn owned the entire equity interests of 15 subsidiaries incorporated in the PRC, were held by HWTM (as a trustee-manager of HWT) on trust for HWT. Pursuant to the terms of the SPA, the Purchaser shall procure, within the expiry of two years from the Completion Date, either the effective change of the trustee-manager of HWT from HWTM to a new trustee-manager, or the purchase of HWTM by the Purchaser's Group or such other party as nominated by the Purchaser at a nominal consideration of S$1.

Pursuant to the terms of the SPA, the parties to the SPA agreed that the Target Company will transfer the equity interest or assets of each of Hyflux NewSpring (Rudong) and Hyflux NewSpring (Nantong) to third party(ies) owned by the local government authorities in the PRC which are independent of the Company and its connected persons (as defined in the Listing Rules).

Pursuant to the terms of the equity transfer agreement (the "**Rudong Transfer Agreement**") dated 23 December 2016, Hyflux Utility (YK) agreed to transfer 100% equity interest in Hyflux NewSpring (Rudong) to Nantong Tianyuan New Energy (the "**Rudong Transaction**"). The consideration for the Rudong Transaction is RMB75,240,000 (equivalent to US$11,434,650.46, subject to adjustment due to fluctuation of exchange rate on the relevant payment date (the "**Rudong Sale Consideration**")) and is payable in two instalments in the US$ equivalent as follows: (i) the first instalment of US$10,291,185.41, being 90% of the Rudong Sale Consideration, within 5 business days after completion of the Rudong AIC Registration (as defined below) (the "**Rudong First Instalment**"); and (ii) the balance of US$1,143,465.05 within 3 months after the date on which the Rudong First Instalment becomes payable. The completion of the Rudong Transfer Agreement is subject to the fulfillment (or waiver) of the following conditions:-

(i) the parties to the Rudong Transfer Agreement having obtained such approvals in relation to the Rudong Transfer Agreement and the Rudong Transaction from the competent body as required by its articles of association or other organizational documents or the application PRC laws;

(ii) Nantong Tianyuan New Energy having obtained the approval of and/or made the filing with the SASAC (as the case may be) in relation to the Rudong Transaction to the extent required by the SASAC;

(iii) the Rudong Transaction having been approved by or filed with MOFCOM;

(iv) the registration of the Rudong Transaction with the AIC (the "**Rudong AIC Registration**") having been completed;

(v) all formalities with the SAFE in connection with the Rudong Transaction and payment of the Rudong Sale Consideration having been completed;

(vi) Hyflux Utility (YK) having received the full amount of the Rudong First Instalment; and

(vii) Nantong Tianyuan New Energy having timely provided and injected funds for the purpose of the repayment of the shareholder loan in the amount of US$1,410,134.64 (inclusive of interest) due to Hyflux Utility (YK) and having provided all necessary assistance in order to achieve the timely completion of the foreign exchange formalities with the SAFE in connection with the repayment of such shareholder loan.

Further, pursuant to the terms of the Rudong Transfer Agreement, within 2 business days following the completion of the Rudong AIC Registration, as the security for the Rudong Sale Consideration, Nantong Tianyuan New Energy agreed to pledge 100% equity interest in Hyflux NewSpring (Rudong) to Hyflux Utility (YK) and Nantong Tianyuan New Energy (as pledgor) shall execute an equity pledge contract in favour of Hyflux Utility (YK) (as pledgee).

Pursuant to the terms of the equity transfer agreement (the "**Nantong Transfer Agreement**", together with the Rudong Transfer Agreement, the "**Equity Transfer Agreements**") dated 23 December 2016, Hyflux Utility agreed to transfer 100% equity interest in Hyflux NewSpring (Nantong) to Nantong Tianyuan New Energy (the "**Nantong Transaction**"). The consideration for the Nantong Transaction is RMB54,760,000 (equivalent to US$8,322,188.45, subject to adjustment due to fluctuation of exchange rate on the relevant payment date (the "**Nantong Sale Consideration**")) and is payable in two instalments in the US$ equivalent as follows: (i) the first instalment of US$7,489,969.60, being 90% of the Nantong Sale Consideration, within 5 business days after completion of the Nantong AIC Registration (as defined below) (the "**Nantong First Instalment**"); and (ii) the balance of the Nantong Sale Consideration within 3 months after the date on which the Nantong First Instalment becomes payable. The completion of the Nantong Transfer Agreement is subject to the fulfillment (or waiver) of the following conditions:-

(i) the parties to the Nantong Transfer Agreement having obtained such approvals in relation to the Nantong Transfer Agreement and the Nantong Transaction from the competent body as required by its articles of association or other organizational documents or the application PRC laws;

(ii) Nantong Tianyuan New Energy having obtained the approval of and/or made the filing with the SASAC (as the case may be) in relation to the Nantong Transaction to the extent required by the SASAC;

(iii) the Nantong Transaction having been approved by or filed with MOFCOM;

(iv) the registration of the Nantong Transaction with the AIC (the "**Nantong AIC Registration**") having been completed;

(v) all formalities with the SAFE in connection with the Nantong Transaction and payment of the Nantong Sale Consideration having been completed;

(vi) Hyflux Utility having received the full amount of the Nantong First Instalment; and

(vii) Nantong Tianyuan New Energy having timely provided and injected funds for the purpose of the repayment of the shareholder loan in the amount of US$1,368,936.93 due to Hyflux Utility (inclusive of interest) having provided all necessary assistance in order to achieve the timely completion of the foreign exchange formalities with the SAFE in connection with the repayment of such shareholder loan.

Further, pursuant to the terms of the Nantong Equity Transfer Agreement, within 2 business days following the completion of the Nantong AIC Registration, as the security for the Nantong Sale Consideration, Nantong Tianyuan New Energy agreed to pledge 100% equity interest in Hyflux NewSpring (Nantong) to Hyflux Utility and Nantong Tianyuan New Energy (as pledgor) shall execute an equity pledge contract in favour of Hyflux Utility (as pledgee).

As at the Latest Practicable Date, the completion of Rudong Transaction and the Nantong Transaction had not taken place. It is expected that the completion will take place in or around April 2017.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Nantong Tianyuan New Energy and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Based on the Concession Agreements, the total construction capacity for the above-mentioned plants under such concession agreements is 1,540,000 tonnes per day. As at the Latest Practicable Date, the capacity for the operating plants had reached 920,000 tonnes per day and the capacity for the plants to be built or under construction was 620,000 tonnes per day.

Set out below are the general major terms of the Concession Agreements:

(a) *Concession Agreements (the "WT Concession Agreements") in relation to water supply plants entered into between the relevant members of the Target Group (the "WT Project Owners") with the local government authorities*

The WT Concession Agreements generally provide that WT Project Owners shall be granted the exclusive right to acquire, design, construct, operate and maintain (as the case may be) the various water supply facilities (including but not limited to the water supply plant) and to charge the users in the concession area net water rates based on the volume of water supplied and for some of the WT Concession Agreements, the relevant pipeline facilities fees as well. The term of the concession right under the WT Concession Agreements is generally 30 years and the WT Project Owners shall generally have the right of first refusal to renew the concession right in accordance with the terms of the relevant WT Concession Agreement.

(b) *Concession Agreements (the "WWT Concession Agreements") in relation to wastewater treatment plants entered into between the relevant members of the Target Group (the "WWT Project Owners") with the local government authorities*

The WWT Concession Agreements generally provide that WWT Project Owners shall be granted the exclusive right to design, occupy, use, operate and maintain (as the case may be) the wastewater treatment facilities (including but not limited to the wastewater treatment plant) or invest in, obtain financing for, construct, operate, maintain and transfer the wastewater treatment plant and to charge the relevant local government authority or the pollutant discharging enterprises net service fees based on the volume of wastewater treated, which may or may not be subject to the satisfaction of the requirements of quality of the treated wastewater as stipulated under the relevant WWT Concession Agreement. The term of the concession right under the WWT Concession Agreements ranges from 20 to 30 years and the WWT Project Owners shall generally have the right of first refusal to renew the concession right in accordance with the terms of the relevant WWT Concession Agreement or in some cases, the concession right is subject to renewal upon mutual agreement by the parties thereto under certain WWT Concession Agreements.

FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the audited consolidated financial information of the Target Group for the three years ended 31 December 2013, 2014 and 2015 and for the nine months ended 30 September 2016:

	For the year ended 31 December 2013	**For the year ended 31 December 2014**	**For the year ended 31 December 2015**	**For the 9 months ended 30 September 2016**
	(Audited)	**(Audited)**	**(Audited)**	**(Audited)**
	(US$'000)	*(US$'000)*	*(US$'000)*	*(US$'000)*
Loss before taxation	1,193	5,318	15,571	40,693
Loss after taxation	2,874	6,227	15,308	36,801

According to the audited financial information of the Target Group, the net asset value of the Target Group as at 30 September 2016 was approximately US$228,737,000.

For the year ended 31 December 2015, there was an impairment loss on goodwill and concession right of US$4,376,000. Such impairment loss was recognized for one of the Target Group's water-related infrastructure assets, which was primarily attributable to higher growth in operating costs as compared to the growth in revenue due to the fact that the water rates under one of the WT Concession Agreements were not adjusted in accordance with the terms thereof.

The management of the Group considered the impact of such impairment loss to be immaterial because (i) the management was aware of the impairment loss recognized for the year ended 31 December 2015 before entering into the SPA and the sale and purchase agreement for the Previous Acquisition, and had taken this into account when negotiating for the respective consideration; (ii) the amount of such impairment loss is of no material significance to the Group as compared to the market capitalization of the Group as at the Latest Practicable Date of approximately RMB4,176,247,099 as well as the aggregate consideration for the Previous Acquisition and Acquisition of US$236,500,000;

and (iii) the management of the Group is optimistic about the future prospects of the Target Group as demonstrated in the sub-paragraph headed "Effect on earnings" in the paragraph headed "Financial Effects of the Acquisition" below.

FINANCIAL EFFECTS OF THE ACQUISITION

Immediately before Completion, through holding 50% interest in the Target Company, the Target Company is an associated company of the Company and as such, its financial results, assets and liabilities have not been consolidated into the accounts of the Group. Upon Completion, the Target Company will be a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of which will be consolidated into those of the Group.

Effect on assets and liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming that Completion had taken place on 30 June 2016, the total assets would increase by approximately RMB476,227,000 to RMB13,830,098,000. The total liabilities would increase by approximately RMB406,065,000 to approximately RMB8,656,059,000.

Effect on earnings

Upon Completion, the Group may have to share the loss arising from the Target Group in near future and it will take some time for the Group to re-cultivate the business of the Target Group. Nevertheless, the management of the Group is optimistic about the future prospects of the Target Group because the extensive geographical coverage of the existing projects of the Target Group in various provinces and municipalities in the PRC will enable the Group to explore and develop other business opportunities in these areas. Further, the business of the Target Group has reached a bottleneck under the management of the original shareholders of the Target Group which led to their unwillingness to invest further in the business, and therefore, the relationship between the local government authorities and the members of the Target Group worsened. Under these circumstances, certain local governmment authorities did not raise the various rates or service fees under the relevant Concession Agreements during the past 4 to 5 years. After Completion, by fully utilizing the Group's capital and technologies as well as leveraging its experience in project management and in cooperating with local government authorities in the PRC in various other concession projects, the Company believes that it will be able to foster the relationship between the Target Group and the local government authorities while, at the same time, the existing project plants will be revamped and upgraded with an aim to securing further investment from the local government authorities to construct new project plants under the Concession Agreements, and thereby, enabling the business of the Target Group to generate positive earnings contribution to the Group.

LISTING RULE IMPLICATIONS

As the Previous Acquisition was completed within the past 12 months from the date of the SPA, the Previous Acquisition and the Acquisition are aggregated in computing the applicable percentage ratios pursuant to Rule 14.22 of the Listing Rules. Upon aggregation, since one or more of the applicable percentage ratios (as defined under the Listing Rules) of the Acquisition is/are more than 25% but all of them are less than 100%, accordingly the Acquisition constitutes a major transaction of the Company and is therefore subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to the Listing Rules, shareholders' approval is required for a major transaction. As no Shareholder has a material interest in the Acquisition other than their interests as Shareholders, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approving the Acquisition. Written approval has been obtained from the Closely Allied Group and together hold more than 50% of the issued Shares giving the right to attend and vote at a general meeting:

Name	**Type of Shares**	**Number of Shares held**	**Approximate percentage of total number of Shares in issue** ***(Note 1)***
Closely Allied Group			
(1) Yunnan Province Water with its acting in concert parties (Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong)	Domestic Shares	361,487,162	30.30%
(2) Beijing OriginWater	Domestic Shares	286,650,000	24.02%
(3) Caiyun International	H Shares	2,189,000	0.18%
	Sub-total:	650,326,162	54.50%
Mr. Yu Long	Domestic Shares/H Shares	11,590,000	0.97%
Finergy Development (Tianjin) Equity Investment Partnership (Limited Partnership)	Domestic Shares	137,880,000	11.56%
25 Management Shareholders	Domestic Shares	18,300,000	1.56%
Hangzhou Qingyu Jianzai Venture Capital Investment Partnership (Limited Partnership)	Domestic Shares	5,744,958	0.48%
Sichuan Rongchen Investment Co., Ltd.	Domestic Shares	8,617,437	0.72%
Public Shareholders	H Shares	360,754,900	30.23%
	Total:	1,193,213,457	100%

Notes:

1. The percentage was calculated based on 1,193,213,457 issued Shares as at the Latest Practicable Date.

2. The above percentages may not be exact figures due to rounding and the shareholding may not add up to 100%.

As all the applicable conditions under Rule 14.44 of the Listing Rules are met, such written approval has been accepted in lieu of holding a general meeting to approve the Acquisition.

RECOMMENDATION

The Board is of the view that the Acquisition is on normal commercial terms and the terms of the SPA have been negotiated on an arm's length basis which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Had a special general meeting been convened for the approval of the Acquisition, the Board would have recommended the Shareholders to vote in favour of the Acquisition.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the Appendices to this circular.

Yours faithfully,
By Order of the Board
Yunnan Water Investment Co., Limited*
Xu Lei
Chairman

1. FINANCIAL SUMMARY

The financial information of the Group for the six months ended 30 June 2016 and the three years ended 31 December 2015 has been published in the prospectus, annual report and interim report per below:

(i) the financial information of the Group for the six months ended 30 June 2016 is disclosed in the interim report of the Company for the six months ended 30 June 2016 published on 29 September 2016, from pages 35 to 84;

(ii) the financial information of the Group for the year ended 31 December 2015 is disclosed in the annual report of the Company for the year ended 31 December 2015 published on 30 March 2016, from pages 98 to 230;

(iii) the financial information of the Group for the years ended 31 December 2013 and 31 December 2014 is disclosed in the prospectus of the Company published on 13 May 2015, from pages I-3 to I-118.

All of the above documents have been published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (www.yunnanwater.cn).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2016, being the latest practicable date for the purpose this indebtedness statement, the indebtedness of the Enlarged Group was as follows:

The Group

Our borrowings primarily consisted of short-term and long-term bank borrowings, corporate bonds and other borrowings.

Our borrowings as at 31 December 2016, for the purpose of calculating our indebtedness, were as follows:

	As at 31 December 2016
	RMB'000
Non-current	
Long-term bank borrowings	
- Secured	1,727,559
- Unsecured	1,787,069
	3,514,628
Corporate bonds and other borrowings - unsecured	2,174,926
	5,689,554

	As at 31 December 2016
	RMB'000
Current	
Short-term bank borrowings	
- Secured	—
- Unsecured	1,941,205
Current portion of long-term bank borrowings	
- Secured	102,280
- Unsecured	108,073
Current portion of corporate bonds and other borrowings - unsecured	457,367
	2,608,925
Total	8,298,479

As at 31 December 2016, bank borrowings of RMB1,829.8 million, representing 22% of our total borrowings were secured by guarantees from our related parties, our buildings, our machinery, our concession rights, local government and third parties.

As at 30 September 2016, the Target Group was in net current liabilities position of US$95,347,000. The Group has undertaken the necessary financial support, within the next 12 months from 31 December 2016, so that the Target Group is able to operate as a going concern and meet its liabilities as and when they fall due.

Up to 31 December 2016, except as disclosed above in this section, our Directors confirm that our Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, bank borrowings, corporate bonds and other borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The Target Group

Borrowings

As at 31 December 2016, the Target Group had outstanding unsecured shareholders loans of US$124.8 million, which were repayable as follows:

	As at 31 December 2016
	USD'000
Within one year	112,286
One or two years	—
Two to three years	12,502
Total	124,788

Capital commitment

As at 31 December 2016, the Target Group had outstanding capital commitments of US$22.8 million for the payments under the construction contracts.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities within the Group or the Target Group and normal trade business, the Group and the Target Group did not have any outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 December 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular.

3. WORKING CAPITAL

As at the Latest Practicable Date, the Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds and presently available credit facilities, the Enlarged Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

The management of the Company has been developing the Company through acquisitions of companies in the water supply, wastewater treatment and solid waste treatment industry and strengthening its ties in the industry across the PRC and South East Asian region so as to create long-term value for its Shareholders. The Board believes that the business performance of the Group will continue to grow.

By using methods of tendering with PPP projects, establishing government-corporate cooperated joint venture companies, acquiring high quality operating assets, the Group will actively develop projects in China, for example, Yunnan, Shandong, Zhejiang, Hebei, Henan, Heilongjiang and Guangdong provinces, and strive to achieve synergy effect of different projects across these regions. Tightly grasping the PRC government's "One Belt, One Road" strategy and the PRC government's support to Yunnan province as a bridgehead to the southwest of China, the Group will put more focus on the potential markets in the Southeast Asia, using Thailand as an important market base with an aim to expanding the Group's business into the Southeast Asian countries, for example, Indonesia, Malaysia, Singapore, and other Asian countries, for example, Australia.

With the support of the relevant favorable policies introduced by the governments of the PRC and the Southeast Asian countries, for example, the Action Plan for Prevention and Treatment of Water Pollution (水污染防治行動計劃), the Action Plan for Prevention and Treatment of Soil Pollution (土壤污染治理行動計劃), Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Opinions on Enhancements of the Construction of Urban Municipal Infrastructure from the State Council of the PRC (國務院關於加強城市基礎設施建設的意見) in the PRC, the new policies introducing refuse collection and transportation fee, sewage services charging scheme and subsidy scheme for municipal solid waste power generation in Thailand; and the new policies raising the charge for municipal solid waste power generation in Indonesia, and the growing market demands, in addition to consolidating, steadily developing and expanding the achievements gained in the existing business segments, the Group will continue its expansion into new business ventures, for example, industrial hazardous wastes, medical hazardous wastes, waste power generation and other areas of solid waste treatment, striving to embed diversity as one of the important elements of our business strategies.

The Board will monitor industry developments of its principal businesses and continue to allocate sufficient resources of the Group to investments to maximize the return to the Shareholders.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed, the Directors confirm that they are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2016, the date to which the latest unaudited financial statements of the Group were made up.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from Yunnan Water Investment Co., Limited's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 February 2017

The Directors
Yunnan Water Investment Co., Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the consolidated financial information relating to Galaxy NewSpring Pte. Ltd. (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") comprising the consolidated statements of financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 30 September 2016 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2013, 2014 and 2015 and the nine months ended 30 September 2016 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (the "**Financial Information**"), for inclusion in the circular of Yunnan Water Investment Co., Limited ("**Yunnan Water**") dated 24 February 2017 (the "**Circular**") in connection with the proposed acquisition of 50% equity interest in the Target Company (the "**Proposed Acquisition**") by Yunnan Water.

The Target Company was incorporated in the Republic of Singapore on 13 July 2010 as a private company limited by shares under the Singapore Companies Act.

The statutory financial statements of the Target Company were prepared in accordance with Singapore Financial Reporting Standards ("SFRS") issued by Singapore Accounting Standards Council ("SASC"). The statutory financial statements of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 were audited by KPMG LLP in accordance with Singapore Standards on Auditing.

The directors of the Target Company have prepared the consolidated financial statements for the nine months ended 30 September 2016 (the "**Underlying Financial Statements**") in accordance with International Financial Reporting Standards (the "**IFRSs**") issued by the International Accounting

Standards Board (the "**IASB**"). The Underlying Financial Statements for the nine months ended 30 September 2016 were audited by KPMG LLP in accordance with International Standards of Auditing issued by the International Auditing and Assurance Standards Board **(the "IAASB")**.

The Financial Information has been prepared by the directors of Yunnan Water for inclusion in the Circular in connection with the Proposed Acquisition based on the statutory financial statements of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 and the Underlying Financial Statements for the nine months ended 30 September 2016, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Yunnan Water are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure provisions of the Listing Rules, and for such internal controls as the directors of Yunnan Water determine is necessary to enable the preparation of the Financial Information that is free from material misstatements whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Target Group in respect of any period subsequent to 30 September 2016.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Target Group as at 31 December 2013, 2014 and 2015 and 30 September 2016 and of the Target Group's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Target Group comprising the consolidated statements of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 30 September 2015, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of Yunnan Water are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of Yunnan Water are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Nine-month period ended 30 September	
	Section B Note	**2013** *US$'000*	**2014** *US$'000*	**2015** *US$'000*	**2015** *US$'000 (unaudited)*	**2016** *US$'000*
Revenue	3	51,542	45,841	42,628	28,943	30,352
Cost of sales		(47,800)	(43,511)	(40,233)	(28,994)	(34,628)
Gross Profit/(loss)		3,742	2,330	2,395	(51)	(4,276)
Other loss	5	(475)	(184)	(89)	(89)	(5,062)
General and administrative expenses		(2,686)	(2,810)	(3,339)	(2,526)	(2,238)
Impairment losses on financial receivables		—	—	—	—	(1,011)
Impairment losses on goodwill and concession rights		—	—	(4,376)	(4,255)	(21,637)
Operating profit/(loss)		581	(664)	(5,409)	(6,921)	(34,224)
Finance income	4	3,362	90	79	60	43
Finance expense	4	(5,136)	(4,744)	(10,241)	(7,236)	(6,512)
Finance costs-net		(1,774)	(4,654)	(10,162)	(7,176)	(6,469)
Loss before income tax	5	(1,193)	(5,318)	(15,571)	(14,097)	(40,693)
Income tax (expense)/benefit	6	(1,681)	(909)	263	738	3,892
Loss for the year/period		(2,874)	(6,227)	(15,308)	(13,359)	(36,801)

The accompanying notes form part of the Financial Information.

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

		Year ended 31 December			Nine-month period ended 30 September	
	Section B	**2013**	**2014**	**2015**	**2015**	**2016**
	Note	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
					(unaudited)	
Loss for the year/period		(2,874)	(6,227)	(15,308)	(13,359)	(36,801)
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss						
Net change in fair value of cash flow hedges		—	—	—	—	9
Effective portion of changes in fair value of cash flow hedges		80	55	(11)	(136)	—
Foreign currency translation differences - foreign operations		9,300	(1,134)	(17,418)	(12,369)	(7,347)
Other comprehensive income for the year/period, net of income tax		9,380	(1,079)	(17,429)	(12,505)	(7,338)
Total comprehensive income for the year/period		6,506	(7,306)	(32,737)	(25,864)	(44,139)

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December			At 30 September
	Section B Note	**2013**	**2014**	**2015**	**2016**
		US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets					
Property, plant and equipment		1	1	1	5
Intangible assets	7	261,955	254,542	228,384	184,476
Financial receivables	8	187,888	188,265	176,324	162,793
Trade and other receivables	9	2,527	2,204	2,322	2,158
		452,371	445,012	407,031	349,432
Current assets					
Inventories		632	419	436	384
Financial receivables	8	6,153	6,719	6,855	6,445
Trade and other receivables	9	27,852	29,548	29,561	30,908
Derivative financial instruments	13	—	—	100	—
Restricted cash		772	4	4	—
Cash and cash equivalents	10	42,123	30,702	28,932	12,584
Assets held for sale	11	—	—	—	24,077
		77,532	67,392	65,888	74,398
Current liabilities					
Trade and other payables	12	61,154	55,261	50,572	52,537
Derivative financial instruments	13	53	189	—	—
Interest-bearing borrowings	14	4,500	6,500	114,581	112,286
Current tax payable		3,218	3,198	2,865	2,588
Liabilities held for sale	11	—	—	—	2,334
		68,925	65,148	168,018	169,745
Net current assets/(liabilities)		8,607	2,244	(102,130)	(95,347)
Total assets less current liabilities		460,978	447,256	304,901	254,085

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

	Section B Note	At 31 December 2013 US$'000	At 31 December 2014 US$'000	At 31 December 2015 US$'000	At 30 September 2016 US$'000
Non-current liabilities					
Deferred tax liabilities	15(a)	36,235	35,348	31,840	25,168
Trade and other payables	12	1,536	1,582	185	180
Interest-bearing borrowings	14	110,288	104,713	—	—
		148,059	141,643	32,025	25,348
Net assets		312,919	305,613	272,876	228,737
Capital and reserves					
Share capital	16(a)	296,237	296,237	296,237	296,237
Reserves	16(b)	16,682	9,376	(23,361)	(67,500)
Total equity		312,919	305,613	272,876	228,737

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Foreign currency translation reserve	Hedging reserves	Statutory reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2013	294,687	14,170	(133)	325	(4,186)	304,863
Loss for the year	—	—	—	—	(2,874)	(2,874)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	—	—	80	—	—	80
Foreign currency translation differences for foreign operations	—	9,300	—	—	—	9,300
Total other comprehensive income	—	9,300	80	—	—	9,380
Total comprehensive income for the year	—	9,300	80	—	(2,874)	6,506
Issue of ordinary shares	1,550	—	—	—	—	1,550
At 31 December 2013	296,237	23,470	(53)	325	(7,060)	312,919

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Share capital	Foreign currency translation reserve	Hedging reserves	Statutory reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2014	296,237	23,470	(53)	325	(7,060)	312,919
Loss for the year	—	—	—	—	(6,227)	(6,227)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	—	—	55	—	—	55
Foreign currency translation differences for foreign operations	—	(1,134)	—	—	—	(1,134)
Total other comprehensive income	—	(1,134)	55	—	—	(1,079)
Total comprehensive income for the year	—	(1,134)	55	—	(6,227)	(7,306)
At 31 December 2014	296,237	22,336	2	325	(13,287)	305,613

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Share capital	Foreign currency translation reserve	Hedging reserves	Statutory reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2015	296,237	22,336	2	325	(13,287)	305,613
Loss for the year	—	—	—	—	(15,308)	(15,308)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	—	—	(11)	—	—	(11)
Foreign currency translation differences for foreign operations	—	(17,418)	—	—	—	(17,418)
Total other comprehensive income	—	(17,418)	(11)	—	—	(17,429)
Total comprehensive income for the year	—	(17,418)	(11)	—	(15,308)	(32,737)
At 31 December 2015	296,237	4,918	(9)	325	(28,595)	272,876

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Share capital	Foreign currency translation reserve	Hedging reserves	Statutory reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2015	296,237	22,336	2	325	(13,287)	305,613
Loss for the period	—	—	—	—	(13,359)	(13,359)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges	—	—	(136)	—	—	(136)
Foreign currency translation differences for foreign operations	—	(12,369)	—	—	—	(12,369)
Total other comprehensive income	—	(12,369)	(136)	—	—	(12,505)
Total comprehensive income for the period	—	(12,369)	(136)	—	(13,359)	(25,864)
At 30 September 2015 (unaudited)	296,237	9,967	(134)	325	(26,646)	279,749

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Share capital	Foreign currency translation reserve	Hedging reserves	Statutory reserve	Accumulated losses	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2016	296,237	4,918	(9)	325	(28,595)	272,876
Loss for the period	—	—	—	—	(36,801)	(36,801)
Other comprehensive income						
Net change in fair value of cash flow hedges reclassified to profit or loss	—	—	9	—	—	9
Foreign currency translation differences for foreign operations	—	(7,347)	—	—	—	(7,347)
Total other comprehensive income	—	(7,347)	9	—	—	(7,338)
Total comprehensive income for the period	—	(7,347)	9	—	(36,801)	(44,139)
Transfers	—	—	—	129	(129)	—
At 30 September 2016	296,237	(2,429)	—	454	(65,525)	228,737

The accompanying notes form part of the Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS

	Section B Note	Year ended 31 December 2013 US$	2014 US$	2015 US$	Nine-month period ended 30 September 2015 US$ (unaudited)	2016 US$
Operating activities						
Cash (used in)/generated from operating activities	10(b)	(8,389)	(2,258)	1,959	(2,168)	(7,771)
Tax paid		(830)	(1,949)	(1,040)	(1,030)	(1,480)
Interest paid		(3,529)	(3,175)	(3,026)	(1,453)	(2,997)
Net cash used in operating activities		(12,748)	(7,382)	(2,107)	(4,651)	(12,248)
Investing activities						
Increase in lease prepayments		(855)	—	(511)	(467)	—
Interest received		99	90	79	60	43
Purchase of property, plant and equipment		—	—	—	—	(4)
Net cash (used in) /generated from investing activities		(756)	90	(432)	(407)	39
Financing activities						
Decrease in pledged deposits		3,324	768	—	—	4
Proceeds from issue of ordinary shares		1,550	—	—	—	—
Proceeds from interest-bearing borrowings		5,778	—	9,000	9,000	112,286
Repayment of interest-bearing borrowings		(4,800)	(4,500)	(6,500)	(3,000)	(115,272)
Payment of transaction costs related to interest-bearing borrowings		(2,908)	(267)	(380)	(145)	(50)
Net cash generated from/(used in) financing activities		2,944	(3,999)	2,120	5,855	(3,032)

The accompanying notes form part of the Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

		Year ended 31 December			Nine-month period ended 30 September	
	Section B	**2013**	**2014**	**2015**	**2015**	**2016**
	Note	*US$*	*US$*	*US$*	*US$*	*US$*
					(unaudited)	
Net (decrease)/increase in cash and cash equivalents		(10,560)	(11,291)	(419)	797	(15,241)
Cash and cash equivalents at beginning of year/period		51,948	42,123	30,702	30,702	28,932
Effect of exchange rate fluctuations on cash held		735	(130)	(1,351)	(1,024)	(483)
Cash and cash equivalents at end of year/period	10(a)	42,123	30,702	28,932	30,475	13,208
Analysis of balances of cash and cash equivalents						
Cash and cash equivalents as stated in the consolidated statement of financial position	10(a)	42,123	30,702	28,932	30,475	12,584
Add: Cash and cash equivalents of a disposal group classified as held for sale	11	—	—	—	—	624
Cash and cash equivalents as stated in the consolidated statement of cash flows		42,123	30,702	28,932	30,475	13,208

The accompanying notes form part of the Financial Information.

B NOTES TO FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) *Description of the Target Group and basis of presentation*

(i) *Nature of Business*

Galaxy NewSpring Pte. Ltd. ("The Target Company") is incorporated in the Republic of Singapore. The address of The Target Company's registered office is 80 Bendemeer Road, Hyflux Innovation Centre, Singapore 339949.

The principal activity of The Target Company is investment holding. The principal activities of the subsidiaries are those relating to investment in, either directly or indirectly, water-related infrastructure assets, including water treatment plants ("WTP"), waste water treatment plants ("WWTP") and water recycling plants ("WRP").

Particulars of the subsidiaries included in the consolidated financial statements for Relevant Periods are as follows:

Name of subsidiaries	Place of incorporation	Share of direct or indirect investment %
Galaxy NewSpring Capital Pte. Ltd.	Singapore	100
Galaxy Operation and Management Pte. Ltd.	Singapore	100
Hyflux Utility (LP) Limited	Hong Kong	100
Hyflux Utility (TY) Limited	Hong Kong	100
Hyflux Utility WT (GCL) Limited	Hong Kong	100
Hyflux Utility WT (MG) Limited	Hong Kong	100
Hyflux Water Trust	Singapore	100
Hyflux Utility WTP (DZ) Pte. Ltd.	Singapore	100
Hyflux Utility WWT (HCHX) Pte. Ltd.	Singapore	100
Held by subsidiary, Galaxy Operation and Management Pte Ltd		
Galaxy Operation and Management (Shanghai) Co., Ltd	People's Republic of China	100
Held by subsidiary, Hyflux Utility (LP) Limited		
Hyflux NewSpring Water Treatment (Leping) Co., Ltd.	People's Republic of China	100

Name of subsidiaries	Place of incorporation	Share of direct or indirect investment %
Held by subsidiary, Hyflux Utility (TY) Limited		
Hyflux NewSpring (Taoyuan) Co., Limited	People's Republic of China	100
Held by subsidiary, Hyflux Utility WT (GCL) Limited		
Hyflux NewSpring (LiaoyangGongChangLing) Co., Limited	People's Republic of China	100
Held by subsidiary, Hyflux Utility WT (MG) Limited		
Hyflux NewSpring Water Treatment (Mingguang) Co., Ltd.	People's Republic of China	100
Held by subsidiary, Hyflux Water Trust		
Hyflux Utility Ltd.*	British Virgin Islands	100
Hyflux Utility (WX) Limited*	Hong Kong	100
Hyflux Utility (YK) Limited*	Hong Kong	100
Hyflux Utility WTP (GY) Limited*	Hong Kong	100
Hyflux Utility WWT (MG) Limited*	Hong Kong	100
Held by subsidiary, Hyflux Utility WTP (DZ) Pte Ltd		
Hyflux NewSpring (Dezhou) Co., Ltd	People's Republic of China	100
Held by subsidiary, Hyflux Utility WWT (HCHX) Pte Ltd		
Hyflux GaoYang Sewage Disposal (Chongqing) Co., Ltd	People's Republic of China	100
Held by subsidiary, Hyflux Utility Ltd.		
Hyflux NewSpring (Changshu) Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Taizhou) Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Wuxi) Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Tiantai) Co., Ltd	People's Republic of China	100
Langfang Hyflux NewSpring Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Nantong) Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Liaoyang) Co., Ltd	People's Republic of China	100

Name of subsidiaries	Place of incorporation	Share of direct or indirect investment %
Hyflux NewSpring (Yangzhou) Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Dafeng) Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Tianjin) Co., Ltd	People's Republic of China	100
Hyflux NewSpring (Zunhua) Co., Ltd	People's Republic of China	100
Held by subsidiary, Hyflux Utility (WX) Limited		
Wuxi Hyflux NewSpring Sewage Disposal Co., Ltd	People's Republic of China	100
Held by subsidiary, Hyflux Utility (YK) Limited		
Hyflux NewSpring Sewage Disposal (Rudong) Co., Ltd	People's Republic of China	100
Held by subsidiary, Hyflux Utility WTP (GY) Limited		
Hyflux NewSpring (Guanyun) Co., Ltd	People's Republic of China	100
Held by subsidiary, Hyflux Utility WWT (MG) Limited		
Hyflux NewSpring Waste Water Treatment (Mingguang) Co., Ltd	People's Republic of China	100

* The legal interest of these subsidiaries, which in turn own the entire equity interests of 15 subsidiaries incorporated in the PRC, is held by Hyflux Water Trust Management Pte. Ltd. ("HWTM" on trust for Hyflux Water Trust ("HWT"), HWTM is a company incorporated in Singapore and wholly owned subsidiary of Hyflux Ltd (the shareholder of Hyflux Asset Management Pte. Ltd., which is one of the shareholders of the target company).

(ii) *Basis of presentation*

The consolidated financial statements of the Target Group have been prepared on the historical cost basis except as otherwise described in the note below.

Going concern

The financial statements have been prepared on a going concern basis, notwithstanding the Target Group's net current liabilities position of US$95,347,000 as at 30 September 2016. The ultimate holding company of one of the shareholders, Yunnan Water Investment Co., Limited has undertaken the necessary financial support, within the next 12 months from 31 December 2016, so that the Target Group is able to operate as a going concern and meet its liabilities as and when they fall due. In addition, Hyflux Asset Management Pte. Ltd., which is one of the shareholders of the Target Group, has also undertaken to refinance the shareholder loan of US$56,142,967 lent to the Target Group as at 30 September 2016, if the proposed acquisition is not completed upon maturity of the shareholder loan.

(b) ***Statement of compliance***

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Further details of the significant accounting policies adopted are set out in the remainder of this note 1.

The HKICPA has issued certain of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Target Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 22.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the nine months ended 30 September 2015 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(c) ***Basis of measurement***

The Financial Information is presented in United States dollars ("**US$**"), rounded to the nearest thousand.

The functional currency of the Target Company and subsidiaries outside of the People's Republic of China ("**PRC**") is United States dollars. The PRC subsidiaries have Chinese Renminbi as their functional currencies.

(d) ***Use of estimates and judgments***

The preparation of Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) ***Subsidiaries***

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(f) ***Goodwill***

Goodwill represents the excess of

(i) The aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Target Group's previously held equity interest in the acquiree; over

(ii) The net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses.

Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) ***Property, plant and equipment***

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives.

(h) ***Service concession arrangements***

The Target Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors"). The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Target Group carries out construction work of the water-related infrastructure assets for the Grantors and receives in return a right to operate the service project concerned for a specified period of time (the "operation period") in accordance with the pre-established conditions set by the Grantors, the service project should be transferred to the Grantors with nil consideration at the end of the operation period. A TOT arrangement is similar to a BOT arrangement, except that the Target Group pays consideration for the right to operate the water-related infrastructure assets that have been built.

(i) *Consideration given by the Grantor*

A financial receivable is recognised to the extent that the Target Group has an unconditional right to receive cash or another financial asset from the Grantor for the construction services rendered and/or the consideration paid and payable by the Target Group to the Grantor. The Target Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Target Group specified or determinable amounts or the shortfall, if any, between amounts received from the users of the public service and specified or determinable amounts. The financial receivable is accounted for in accordance with the policy set out for loans and receivables below (see note 1(n)).

An intangible asset (operating concession right) is recognised to the extent that the Target Group receives a right to charge users of public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset is accounted for in accordance with the policy set out for "intangible assets" below (see note 1(i)).

If the Target Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

(ii) *Construction services*

Revenue relating to construction services is accounted for in accordance with the policy set out for "revenue recognition" below (see note 1(u)).

(iii) *Operating and maintenance services*

Revenue relating to operating and maintenance services is accounted for in accordance with the policy set out for "revenue recognition" below (see note 1(u)).

(i) ***Intangible assets (other than goodwill)***

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The intangible assets (operating concession right) is amortised over the terms of operation ranging from 20 to 30 years. Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(j) ***Leased assets***

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Target Group*

Assets that are held by the Target Group under leases which transfer to the Target Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

(ii) *Operating lease charges*

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) ***Impairment of assets***

(i) *Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years/periods.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for trade and other receivables are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the intangible assets and goodwill may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years/periods. Reversals of impairment losses are credited to profit or loss in the year/period in which the reversals are recognised.

(l) ***Derivative financial instruments***

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(m) ***Inventories***

Inventories comprise mainly low-value consumables and are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase. When inventories are consumed, the carrying amount of those inventories is recognised as an expense in the period in which the consumption occurs. The amount of any writedown of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any writedown of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) ***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of trade and other receivables (see note 1(k)).

(o) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) ***Trade and other payables***

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) ***Employee benefits***

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(s) ***Income tax***

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years/period.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) ***Provisions and contingent liabilities***

Provisions are recognised for other liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably.

(i) *Service concession arrangements*

Revenue related to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed. Operation and maintenance services revenue is recognised in the period in which the services are provided by the Target Group. When the Target Group provides more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

- Construction revenue

When the outcome of a construction contract can be estimated reliably, construction revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, construction revenue is recognised only to the extent of construction costs incurred that are likely to be recoverable. An expected loss on a construction contract is recognised immediately in profit or loss.

- Operating and maintenance income

Revenue from the provision of operation and maintenance services is recognised when services are rendered.

- Finance income

Finance income represents the interest income on the financial receivable arising from a service concession arrangement, and is recognised in profit or loss using the effective interest method.

(ii) *Interest income on bank deposits*

Interest income on bank deposits is recognised as it accrues in profit or loss, using the effective interest method.

(v) ***Government grants***

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) ***Hedging***

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Target Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(x) ***Translation of foreign currency***

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Nonmonetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into United States Dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into United States Dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(y) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(z) ***Non-current assets held for sale***

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Target Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Target Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements are concerned are deferred tax assets and financial assets. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the noncurrent asset is not depreciated or amortised.

(aa) ***Related parties***

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

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

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 Target Group or an entity related to the Target 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).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 ACCOUNTING JUDGMENT AND ESTIMATES

The following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

Note 17 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

(i) *Impairment for trade and other receivables*

The Target Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Target Group bases the estimates on the aging of the trade and other receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(ii) *Impairment of intangible assets and goodwill*

The recoverable amounts of goodwill and intangible assets have been determined based on value-in-use calculations, taking into account latest market information and past experience. These calculation require the use of judgements and estimates.

Key assumptions used in the value-in-use calculations are disclosed in note 7.

(iii) *Fair value measured of intangible assets and financial receivables arising from service concession arrangement*

The Target Group is paid for the construction services by a financial asset and/or an intangible asset, and each component of the operator's consideration is accounted for separately. Significant judgment is exercised in determining the fair value of the financial receivable and intangible assets at initial recognition. Discount rates, estimates of future cash flows and other factors are used in the valuation process.

3 REVENUE

The principal activity of the Target Group is investment in water-related infrastructure assets. Revenue represents construction income, operating and maintenance income and finance income.

The amount of each significant category of revenue is as follows:

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Construction income	16,895	10,079	6,875	3,097	5,324
Operating and maintenance income	26,387	27,461	27,651	19,705	19,501
Finance income	8,260	8,301	8,102	6,141	5,527
	51,542	45,841	42,628	28,943	30,352

The Target Group's customer base is diversified and no customer with whose transaction has exceeded 10% of the Target Group's revenue for each of the reporting year/period prescribed.

4 NET FINANCE COSTS

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Finance income					
Interest income	99	90	79	60	43
Foreign exchange gain-net	3,263	—	—	—	—
	3,362	90	79	60	43

4 NET FINANCE COSTS (CONTINUED)

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Finance expense					
Interest expense	(5,136)	(4,359)	(4,308)	(3,221)	(3,268)
Foreign exchange loss − net	—	(385)	(5,933)	(4,015)	(3,244)
	(5,136)	(4,744)	(10,241)	(7,236)	(6,512)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) ***Manpower costs***

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Salaries and other benefits	3,565	4,016	3,818	2,965	2,823
Contributions to defined contribution scheme (note (i))	995	1,101	1,235	924	895
	4,560	5,117	5,053	3,889	3,718

(i) Employees of the Target Group based in the People's Republic of China are required to participate in a defined contribution scheme administered and operated by the local municipal government. The Target Group contributes funds which are calculated on certain percentages of the employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Target Group has no other material obligation for the payment of retirement benefits associated with these schemes beyond the annual contributions described above.

5 LOSS BEFORE TAXATION (CONTINUED)

(b) ***Other items***

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Amortisation of concession rights and lease prepayments	8,415	8,553	8,617	6,512	6,167

(c) ***Other loss***

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Penalties	475	184	89	89	5,062

The penalties are mainly related to the environmental incompliance cases.

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) ***Taxation in the consolidated statements of profit or loss and other comprehensive income represents:***

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Current tax expense					
Current year provision	1,037	957	590	176	308
Under/(over)-provision in prior years	179	(27)	(356)	(356)	361
Withholding tax	907	735	777	605	519
	2,123	1,665	1,011	425	1,188
Deferred tax credit					
Movement in temporary differences	(442)	(756)	(1,274)	(1,163)	(5,080)
Income tax expense/(benefit)	1,681	909	(263)	(738)	(3,892)

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) ***Reconciliation between tax expense and accounting loss at applicable tax rates:***

	Year ended 31 December			Nine-month period ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Reconciliation of effective tax rate					
Loss before tax	(1,193)	(5,318)	(15,571)	(14,097)	(40,693)
Income tax using the Singapore tax rate of 17%	(203)	(904)	(2,647)	(2,396)	(6,918)
Effect of different tax rates in other jurisdictions	(273)	(96)	(747)	(500)	(788)
Income not subject to tax	(2,558)	(1,849)	(2,042)	(2,059)	(1,454)
Non-deductible expenses	2,611	1,562	2,086	1,983	1,267
Tax incentives	(64)	(6)	—	—	—
Under/(over)-provision in prior years	179	(27)	(356)	(356)	361
Deferred tax benefit not recognised	1,082	1,494	2,666	1,985	3,121
Withholding tax	907	735	777	605	519
	1,681	909	(263)	(738)	(3,892)

The Target Company and the subsidiaries incorporated in Singapore are subject to income tax rate of 17% and the subsidiaries incorporated in PRC are subject to income tax rate of 25%.

7 INTANGIBLE ASSETS

	Goodwill	Concession rights	Lease prepayments	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cost				
At 1 January 2013	15,582	232,027	14,106	261,715
Additions	—	15,325	855	16,180
Effects of movements in exchange rates	482	7,594	385	8,461
At 31 December 2013	16,064	254,946	15,346	286,356
Additions	—	2,168	—	2,168
Effects of movements in exchange rates	(58)	(979)	1	(1,036)
At 31 December 2014	16,006	256,135	15,347	287,488
Additions	—	645	511	1,156
Effects of movements in exchange rates	(923)	(17,460)	(923)	(19,306)
At 31 December 2015	15,083	239,320	14,935	269,338
Additions	—	631	—	631
Reclassification to assets held for sale	(343)	(29,338)	(1,089)	(30,770)
Effects of movements in exchange rates	(362)	(6,499)	(420)	(7,281)
At 30 September 2016	14,378	204,114	13,426	231,918

7 INTANGIBLE ASSETS (CONTINUED)

	Goodwill *US$'000*	Concession rights *US$'000*	Lease prepayments *US$'000*	Total *US$'000*
Accumulated amortisation and impairment				
At 1 January 2013	—	12,988	2,424	15,412
Amortisation for the year	—	7,875	540	8,415
Effect of movements in exchange rates	—	546	28	574
At 31 December 2013	—	21,409	2,992	24,401
Amortisation for the year	—	8,000	553	8,553
Effect of movements in exchange rates	—	(48)	40	(8)
At 31 December 2014	—	29,361	3,585	32,946
Amortisation for the year	—	8,059	558	8,617
Impairment loss	1,686	2,690	—	4,376
Effect of movements in exchange rates	—	(4,739)	(246)	(4,985)
At 31 December 2015	1,686	35,371	3,897	40,954
Amortisation for the year	—	5,753	414	6,167
Impairment loss	1,892	19,745	—	21,637
Reclassification to assets held for sale	(16)	(19,895)	(224)	(20,135)
Effect of movements in exchange rates	—	(1,054)	(127)	(1,181)
At 30 September 2016	3,562	39,920	3,960	47,442
Net book value				
At 31 December 2013	16,064	233,537	12,354	261,955
At 31 December 2014	16,006	226,774	11,762	254,542
At 31 December 2015	13,397	203,949	11,038	228,384
At 30 September 2016	10,816	164,194	9,466	184,476

Lease prepayments are made for land use rights in the PRC, which are amortised on a straight line basis over the concession arrangement period ranging from 20 to 30 years.

7 INTANGIBLE ASSETS (CONTINUED)

Impairment tests for cash-generating units (“CGU”) containing goodwill

Each water-related infrastructure asset constitutes a CGU.

The recoverable amount of a CGU is determined based on value-in-use calculation using discounted cash flow projections derived from the financial projections approved by management of the Target Group. The key assumptions made are those regarding forecast period, revenue and costs, growth rates and discount rates. Cash flows are projected over 20 to 30 years in accordance with the duration of the concession agreements.

The anticipated weighted average annual revenue growth rates used in the cash flow projections ranged from 2% to 15%. The forecasted revenue and costs, and growth rates are based on past performance of operating plants, expectations of market development as well as industry reports.

Pre-tax discount rates ranging from 11% to 13% were applied in determining the recoverable amount of the CGUs. The discount rates used reflect the current market assessment of the time value of money and the risks specific to the CGUs.

The values assigned to these key assumptions represent management’s assessment of future trends in the water industry and are based on both external and internal sources.

For the CGUs with significant goodwill set out below, management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the range by which these two assumptions would need to increase/(decrease) individually for the estimated recoverable amount to be equal to its carrying amount.

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
Number of CGU	10	10	9	7

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$’000	*US$’000*	*US$’000*	*US$’000*
Carrying amount of goodwill	14,254	14,202	11,698	9,797

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	%	%	%	%
Pre-tax discount rate	2.7~5.4	1.6~5.0	1.3~3.5	0.6~2.9
Budgeted EBITDA margin	(1.6~15.0)	(1.4~19.8)	(1.0~14.7)	(1.0~17.5)

7 INTANGIBLE ASSETS (CONTINUED)

Recoverability of intangible assets

The Target Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGU to which the goodwill is allocated.

The carrying amount of intangible assets arising from service concession arrangement is tested for impairment whenever there is any objective evidence or indication that the intangible assets may be impaired.

Estimating the value in use of the CGU to which the goodwill is allocated or intangible assets requires the Target Group to make an estimate of the expected future cash flows from the CGU or intangible assets and also to choose a suitable discount rate in order to calculate the present value of those expected future cash flows. Changes to the expected future cash flows and discount rate could impact on the recoverable amounts of the CGU or intangible assets.

Impairment loss

Following the impairment testing performed, the Target Group recognised an impairment loss of US$4,376,000 on one of the water-related infrastructure assets for the year ended 31 December 2015, which was primarily attributable to higher growth in operating costs as compared to the growth in revenue due to the fact that the water rates under one of the water treatment concession agreements were not adjusted in accordance with the terms thereof. The carrying amount of the water-related infrastructure asset was determined to be higher than its recoverable amount of US$31,155,000 as at 31 December 2015. The impairment loss was allocated first to reduce the goodwill allocated to the WTP of US$1,686,000 and the remaining balance to related concession rights.

Following the impairment testing performed, the Target Group recognised an impairment loss of US$7,048,000 on four of the water-related infrastructure assets for the nine months period ended 30 September 2016. The carrying amounts of the water-related infrastructure assets were determined to be higher than their recoverable amount of US$76,809,000. The impairment loss was allocated first to reduce the goodwill allocated to the water-related infrastructure assets of US$1,892,000 and the remaining balance to related concession rights.

For the nine months period ended 30 September 2016, an impairment loss of US$14,589,000 was recognised on one of the water-related infrastructure assets, which were reclassified as assets held for sale as mentioned in note 11.

8 FINANCIAL RECEIVABLES

As further explained in the accounting policy for "Service concession arrangements" set out in note 1(h), the consideration paid by the Target Group for a service concession arrangement is accounted for as a financial receivable or an intangible asset (operating concession right), or a combination of both, as appropriate.

The following is the summarised information of the financial receivables with respect to the Target Group's service concession arrangements.

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial receivables	194,041	194,984	183,179	169,238
Portion classified as current assets	(6,153)	(6,719)	(6,855)	(6,445)
Non-current portion	187,888	188,265	176,324	162,793

The expected collection schedule of receivables under service concession arrangements is as follows:

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	6,153	6,719	6,855	6,445
One to two years	9,941	8,607	6,770	6,423
Three to five years	20,082	21,095	21,127	20,480
Over five years	157,865	158,563	148,427	135,890
	194,041	194,984	183,179	169,238

The receivables under service arrangements are billable receivables, which are mainly due from governmental authorities in the PRC. Based on past experiences, no provision for impairment is necessary in respect of these balances.

9 TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 September
	2013	2014	2015	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade receivables	21,992	23,544	24,379	27,473
Deposits	38	61	57	55
Amounts due from related parties	1,465	1,749	2,059	2,121
Other receivables	6,707	6,309	5,314	3,417
Prepayments	177	89	74	—
Total	30,379	31,752	31,883	33,066
Non-current	2,527	2,204	2,322	2,158
Current	27,852	29,548	29,561	30,908
Total	30,379	31,752	31,883	33,066

The non-trade amounts due from related parties are unsecured, interest-free and repayable on demand.

The Target Group's exposure to credit and currency risks related to loans and receivables are disclosed in note 17.

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) ***Ageing analysis***

As at the end of each reporting period, the ageing analysis of trade and other receivables (excluding prepayments) is as follows:

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Not past due	9,216	9,050	8,832	6,650
Past due 0-30 days	3,632	4,095	3,692	3,559
Past due 31-180 days	6,402	6,210	4,689	7,442
Past due more than 180 days	10,952	12,308	14,596	15,415
	30,202	31,663	31,809	33,066

The Target Group believes that the unimpaired amounts that are past due more than 180 days are collectible, based on historical experience. The Target Group believes that, no impairment allowance is necessary in respect of trade and other receivables.

10 CASH AND CASH EQUIVALENTS

(a) ***Cash and cash equivalents comprise:***

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cash at bank	41,958	30,537	28,769	12,520
Fixed deposits with financial institutions	165	165	163	64
Cash and cash equivalents	42,123	30,702	28,932	12,584

10 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) ***Reconciliation of loss before income tax to cash (used in)/generated from operations:***

					Nine months ended	
		Year ended 31 December			**30 September**	
	Note	**2013**	**2014**	**2015**	**2015**	**2016**
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
					(unaudited)	
Loss before income tax		(1,193)	(5,318)	(15,571)	(14,097)	(40,693)
Amortisation of concession rights and lease prepayments		8,415	8,553	8,617	6,512	6,167
Impairment losses on financial receivables		—	—	—	—	1,011
Impairment losses on goodwill and concession rights	7	—	—	4,376	4,255	21,637
Change in fair value of derivatives		—	189	(193)	(153)	—
Interest expense	4	5,136	4,359	4,308	3,221	3,268
Interest income	4	(99)	(90)	(79)	(60)	(43)
Foreign exchange loss/(gain)		(3,422)	372	5,806	3,896	3,229
		8,837	8,065	7,264	3,574	(5,424)
Changes in:						
- inventories		(234)	213	(17)	13	24
- trade and other receivables		2,678	5,050	7,237	2,734	(1,099)
- trade and other payables		(2,776)	(5,720)	(6,068)	(4,789)	4,091
- financial receivables from service concession arrangements		(1,570)	(7,713)	(5,818)	(3,172)	(4,732)
- intangible assets arising from service concession arrangements		(15,324)	(2,153)	(639)	(528)	(631)
Cash (used in)/generated from operating activities		(8,389)	(2,258)	1,959	(2,168)	(7,771)

11 ASSETS/LIABILITIES HELD FOR SALE

In 2016, the Target Group commenced the process to sell 100% equity interests of two operating subsidiaries in PRC, namely Hyflux NewSpring Sewage Disposal (Rudong) Co., Ltd and Hyflux NewSpring (Nantong) Co., Ltd. Accordingly, all the assets and liabilities of these two subsidiaries were classified as assets/liabilities held for sale as at 30 September 2016. On 1 November 2016, the Target Group entered into non-binding Memorandum of Understanding with a potential buyer regarding the sale of equity interests in these two subsidiaries. In December 2016, the Target Group entered into a formal sales and purchase agreement to dispose of the two subsidiaries for a total consideration of US$22,367,000.

During the nine months ended 30 September 2016, an impairment loss of US$15,600,000 was recognised to write down the carrying amount of the disposal group to its fair value less costs to sell. The impairment has been applied to reduce the carrying amount of goodwill and concession rights of US$14,589,000 and financial receivables of US$1,011,000.

The non-recurring fair value measurement for the disposal group of US$22,367,000 has been categorised as a Level 2 fair value based on the agreed sales price of the two subsidiaries.

As at 30 September 2016, assets and liabilities of the two subsidiaries classified as held for sale were stated at fair value less costs to sell and comprised the following:

	At 30 September 2016
	US$'000
Intangible assets	10,635
Financial receivables	7,602
Inventories	28
Trade and other receivables	5,188
Cash and cash equivalents	624
Assets held for sale	24,077
Trade and other payables	1,537
Deferred tax liabilities	797
Liabilities held for sale	2,334

There are no cumulative income or expenses included in other comprehensive income relating to the disposal group.

12 TRADE AND OTHER PAYABLES

	At 31 December			At 30 September
	2013	2014	2015	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade payables	3,718	3,892	4,663	6,119
Other payables	3,532	4,122	4,155	5,635
Accrued expenses	17,021	15,648	15,230	14,055
Amounts due to:				
- related parties (trade)	35,070	30,046	24,588	24,913
- related parties (non-trade)	3,349	3,135	2,121	1,995
	62,690	56,843	50,757	52,717
Non-current	1,536	1,582	185	180
Current	61,154	55,261	50,572	52,537
	62,690	56,843	50,757	52,717

The amounts due to related parties are unsecured and interest-free. Details of the amounts due to related parties are set out in note 19.

13 DERIVATIVE FINANCIAL INSTRUMENTS

	At 31 December			At 30 September
	2013	2014	2015	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*
Assets				
Forward exchange contracts	—	—	100	—
	—	—	100	—
Liabilities				
Forward exchange contracts	—	189	—	—
Interest rate swaps used for hedging	53	—	—	—
	53	189	—	—

14 INTEREST-BEARING BORROWINGS

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current				
Secured bank loans	110,288	104,713	—	—
Current				
Secured bank loans	4,500	6,500	114,581	—
Shareholders loans - unsecured	—	—	—	112,286
	114,788	111,213	114,581	112,286

The bank loans were secured by share mortgages of all the shares of the subsidiaries incorporated or formed to hold or own the China subsidiaries, and deposits pledged of US$772,000, US$4,000 and US$4,000 as at 31 December 2013, 2014 and 2015, respectively.

Terms and conditions of outstanding loans are as follows:

	Currency	**Nominal interest rate**	**Year of maturity**	**Carrying amount**
		%		*US$'000*
30 September 2016				
Shareholders loans	USD	4.80%	2017	112,286
31 December 2015				
Secured bank loans	USD	USD LIBOR + margin	2016	114,581
31 December 2014				
Secured bank loans	USD	USD LIBOR + margin	2015-2016	111,213
31 December 2013				
Secured bank loans	USD	USD LIBOR + margin	2014-2016	114,788

14 INTEREST-BEARING BORROWINGS (CONTINUED)

At 31 December 2013, 2014, 2015 and 30 September 2016, the loans were repayable as follows:

	At 31 December			At 30 September
	2013	2014	2015	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within 1 year or on demand	4,500	6,500	114,581	112,286
After 1 year but within 2 years	6,500	104,713	—	—
After 2 years but within 5 years	103,788	—	—	—
	114,788	111,213	114,581	112,286

As at 31 December 2015, the Target Group was not able to meet the covenant contained in the bank loans agreement. In February 2016, the Target Group obtained documentary waiver from the banks on the covenant breach observed as at 31 December 2015. The secured bank loans were fully repaid in September 2016.

15 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) *Deferred taxes recognised*

The components of deferred tax (assets)/liabilities recognised in the consolidated statements of financial position and the related movements during the Relevant Periods are as follows:

	Unutilised tax losses	Concession rights	Total
	USD'000	*USD'000*	*USD'000*
At 1 January 2013	(645)	36,267	35,622
Credited to profit or loss	(114)	(328)	(442)
Exchange difference	(24)	1,079	1,055
At 31 December 2013	(783)	37,018	36,235
Credited to profit or loss	—	(756)	(756)
Exchange difference	3	(134)	(131)
At 31 December 2014	(780)	36,128	35,348

15 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(a) ***Deferred taxes recognised (Continued)***

	Unutilised tax losses	Concession rights	Total
	USD'000	*USD'000*	*USD'000*
Credited to profit or loss	—	(1,274)	(1,274)
Exchange difference	45	(2,279)	(2,234)
At 31 December 2015	(735)	32,575	31,840
Credited to profit or loss	—	(5,080)	(5,080)
Reclassified to held for sale	—	(797)	(797)
Exchange difference	20	(815)	(795)
At 30 September 2016	(715)	25,883	25,168

(b) ***Deferred tax assets not recognised***

In accordance with the accounting policy set out in note 1(s), the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of certain PRC subsidiaries as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

	At 31 December			At 30 September
	2013	2014	2015	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*
Tax losses of PRC subsidiaries	22,730	28,449	38,775	51,134

The deductible tax losses expire after 5 years from the year when such losses were incurred under current tax law in the PRC.

16 SHARE CAPITAL AND RESERVES

(a) ***Share capital***

	No. of Shares
Fully paid ordinary shares, with no par value	
At 1 January 2013	388,672,560
Issued for cash	1,920,296
At 31 December 2013,2014 and 2015 and 30 September 2016	390,592,856

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at shareholders meetings of the Target Company. All shares rank equally with regard to the Target Company's residual assets.

(b) ***Nature and purpose of reserves***

(i) *Foreign currency translation*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The reserve is dealt with in accordance with the accounting policies set out in notes 1(x).

(ii) *Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(w).

(iii) *Statutory reserve*

In accordance with the Foreign Enterprise Law in the People's Republic of China (PRC), the Target Group's subsidiaries in the PRC are required to appropriate earnings to a Statutory Reserve Fund (SRF). 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations are allocated to the SRF annually until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

16 SHARE CAPITAL AND RESERVES (CONTINUED)

(c) *Capital management*

The Target Company and its subsidiaries are not subject to externally imposed capital requirements other than some subsidiaries are required under the regulations of the PRC to apportion 10% of its annual after tax-profit to the statutory reserve until such reserve reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The statutory reserve is not available for dividend distribution to shareholders.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Target Group's business. The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) *Credit risk*

The Target Group's credit risk is primarily attributable to cash and cash equivalents, financial receivables, and trade and other receivables.

Cash and cash equivalents held by the Target Group are mainly deposited with financial institutions with sound credit ratings and reputations. The credit risk is considered low.

The maximum exposure to credit risk of financial receivables and trade and other receivables at the reporting date was:

		At 31 December			At 30 September
	Note	**2013**	**2014**	**2015**	**2016**
		US$'000	*US$'000*	*US$'000*	*US$'000*
Financial receivables	8	194,041	194,984	183,179	169,238
Trade and other receivables *	9	30,202	31,663	31,809	33,066
Total receivables		224,243	226,647	214,988	202,304

* *Excludes prepayments*

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) ***Credit risk (Continued)***

The maximum exposure to credit risk for total receivables at the reporting date by type of counterparty was:

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Municipal	211,182	214,328	202,590	192,808
Industrial	13,061	12,258	12,341	9,224
Others	—	61	57	272
	224,243	226,647	214,988	202,304

The Target Group's credit exposure is concentrated in the PRC, where its operations are based. At 30 September 2016, concentration of credit risk relating to 11 customers (31 December 2015: 11, 31 December 2014: 11, 31 December 2013: 11) with outstanding balances representing approximately 86% (2015: 82%, 2014: 84%, 2013: 84%) of financial receivables and trade and other receivables excluding prepayments of the Target Group. These customers are mainly government bodies and agencies of the municipal government of the PRC.

The Target Group does not require any collateral in respect of trade and other receivables.

(b) ***Liquidity risk***

The Target Group's management monitors the Target Group's liquidity risk and maintains a level of cash and cash equivalents deemed adequate to finance the Target Group's operations and to mitigate the effects of fluctuations in cash flows. Typically, the Target Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. As mentioned in note 1(a)(ii), the ultimate holding company of one of the shareholders, Yunnan Water Investment Co., Limited has undertaken to provide the necessary financial support within the next 12 months from 31 December 2016, so that the Target Group is able to meet its liabilities as and when they fall due.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) ***Liquidity risk (Continued)***

Details of maturity analysis for financial liabilities are as follows:

As at 31 December 2013

		Cash flows			
	Carrying amount *US$'000*	**Contractual cash flow** *US$'000*	**Within 1 year** *US$'000*	**Within 2 to 5 years** *US$'000*	**More than 5 years** *US$'000*
Non-derivative financial liabilities					
Interest bearing borrowings	(114,788)	(125,258)	(7,452)	(117,806)	—
Trade and other payables	(62,690)	(62,690)	(61,154)	(1,536)	—
	(177,478)	(187,948)	(68,606)	(119,342)	—
Derivative financial instruments	(53)	(53)	(53)	—	—

As at 31 December 2014

		Cash flows			
	Carrying amount *US$'000*	**Contractual cash flow** *US$'000*	**Within 1 year** *US$'000*	**Within 2 to 5 years** *US$'000*	**More than 5 years** *US$'000*
Non-derivative financial liabilities					
Interest-bearing borrowings	(111,213)	(117,746)	(9,282)	(108,464)	—
Trade and other payables	(56,843)	(56,843)	(55,261)	(1,582)	—
	(168,056)	(174,589)	(64,543)	(110,046)	—
Derivative financial instruments					
Forward exchange contracts					
- Outflow	—	(5,179)	(3,146)	(2,033)	—
- Inflow	—	4,990	3,050	1,940	—
	(189)	(189)	(96)	(93)	—

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) ***Liquidity risk (Continued)***

As at 31 December 2015

		Cash flows			
	Carrying amount	**Contractual cash flow**	**Within 1 year**	**Within 2 to 5 years**	**More than 5 years**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Non-derivative financial liabilities					
Interest-bearing borrowings	(114,581)	(117,850)	(117,850)	—	—
Trade and other payables	(50,757)	(50,757)	(50,572)	(185)	—
	(165,338)	(168,607)	(168,422)	(185)	—
Derivative financial instruments					
Forward exchange contracts					
- Outflow	—	(1,840)	(1,840)	—	—
- Inflow	—	1,940	1,940	—	—
	100	100	100	—	—

As at 30 September 2016

		Cash flows			
	Carrying amount	**Contractual cash flow**	**Within 1 year**	**Within 2 to 5 years**	**More than 5 years**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Non-derivative financial liabilities					
Interest-bearing borrowings	(112,286)	(114,981)	(114,981)	—	—
Trade and other payables	(52,717)	(52,717)	(52,537)	(180)	—
As at 30 September 2016	(165,003)	(167,698)	(167,518)	(180)	—

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) *Interest rate risk*

The Target Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk respectively. The Target Group's interest rate profile is set out in (ii) below.

(i) *Hedging*

The Target Group designated interest rate swaps as hedges against variability in cash flows attributable to interest rate fluctuations. As at 31 December 2015, the Target Group received floating interest, and paid a fixed rate of interest of 0.77%-0.79% (2014: 0.77%-0.79%, 2013: 0.53%-0.90%) per annum for the interest-bearing borrowings with notional amount of US$42,000,000 (2014: US$45,000,000, 2013: US$58,440,000).

As at 31 December 2015 and 2014, fair value of interest rate swaps of US$9,000 and US$2,000 was included in other payables and other receivables, respectively.

(ii) *Interest rate profile*

The following table details the interest rate profile of the Target Group's interest bearing financial instruments at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments (see (i) above).

	As 31 December						At 30 September	
	2013		2014		2015		2016	
	Effective interest rate %	*US$'000*	*Effective interest rate %*	*US$'000*	*Effective interest rate %*	*US$'000*	*Effective interest rate %*	*US$'000*
Fixed rate instruments:								
Cash at bank	0%-0.35%	4,909	0%-0.35%	1,661	0%-0.35%	6,360	0%-0.35%	1,415
Interest-bearing borrowings	—	—	—	—	—	—	4.80%	(112,286)
Effect of interest rate swaps		(58,400)		(45,000)		(42,000)		—
		(53,491)		(43,339)		(35,640)		(110,871)
Variable rate instruments:								
Interest bearing borrowings	2.87%	(117,272)	2.53%	(112,772)	2.63%	(115,272)		—
Effect of interest rate swaps		58,400		45,000		42,000		—
Cash at bank	0.35%	37,214	0.35%	29,041	0.35%	22,572	0.35%	11,169
		(21,658)		(38,731)		(50,700)		11,169

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) ***Interest rate risk (Continued)***

Sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Target Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in the interest rate as at 30 September 2016 would have decreased loss before tax by US$112,000 (2015: increased loss before tax by US$507,000; 2014: increased loss before tax by US$387,000; 2013: increased loss before tax by US$217,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

A decrease of 100 basis points in the interest rates would have had the equal but opposite effect on loss before tax, on the basis that all other variables remain constant.

(d) ***Currency risk***

The Target Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than the respective functional currencies of the Target Group entities. The currencies in which these transactions occurred primarily are denominated in the United States dollars (USD) and Singapore dollars (SGD).

Exposure to foreign currency risk is monitored on an ongoing basis and the Target Group endeavours to keep the net exposure at an acceptable level. When necessary, The Target Group uses forward exchange contracts to hedge its foreign currency risk.

The notional principal amounts of the outstanding forward foreign exchange contracts of the Target Group were US$1,940,000, US$4,490,000 and Nil as at 31 December 2015, 2014 and 2013, respectively.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) ***Currency risk (Continued)***

The Target Group's exposures to foreign currencies are as follows:

	As 31 December						At 30 September	
	2013		2014		2015		2016	
	USD	*SGD*	*USD*	*SGD*	*USD*	*SGD*	*USD*	*SGD*
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Trade and other receivables	—	697	—	99	—	626	—	651
Cash and cash equivalents	7,452	132	4,969	671	2,671	625	895	1,084
Trade and other payables	(29)	(8,818)	—	(10,646)	—	(2,897)	—	(2,473)
Interest-bearing borrowings	(116,447)	—	(114,738)	—	(107,125)	—	(103,651)	—
	(109,024)	(7,989)	(109,769)	(9,876)	(104,454)	(1,646)	(102,756)	(738)

Sensitivity analysis

The following table indicates the instantaneous change in the Target Group's loss before tax if the following currencies to which the Target Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	As 31 December						At 30 September	
	2013		2014		2015		2016	
	Depreciation/ (appreciation) against functional currency	**(Decrease) /increase in loss before tax**	**Depreciation/ (appreciation) against functional currency**	**(Decrease) /increase in loss before tax**	**Depreciation/ (appreciation) against functional currency**	**(Decrease) /increase in loss before tax**	**Depreciation/ (appreciation) against functional currency**	**(Decrease) /increase in loss before tax**
		US$'000		*US$'000*		*US$'000*		*US$'000*
USD	10%	(10,902)	10%	(10,977)	10%	(10,445)	10%	(10,276)
	(10)%	10,902	(10)%	10,977	(10)%	10,445	(10)%	10,276
SGD	10%	(799)	10%	(988)	10%	(165)	10%	(74)
	(10)%	799	(10)%	988	(10)%	165	(10)%	74

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Target Group entities' loss before tax measured in the respective functional currencies, translated into United States Dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) ***Fair value***

(i) *Fair value hierarchy*

The following table presents the fair value of The Target Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) ***Fair value (Continued)***

(ii) The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are disclosed as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount				Fair value			
	Note	Designated at fair value	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 December 2013									
Financial assets not carried at fair value									
Financial receivables	8	—	194,041	—	194,041	—	203,185	—	203,185
Trade and other receivables*	9	—	30,202	—	30,202				
Restricted cash		—	772	—	772				
Cash and cash equivalents	10	—	42,123	—	42,123				
		—	267,138	—	267,138				
Financial liabilities carried at fair value									
Interest rate swaps	13	(53)	—	—	(53)	—	(53)	—	(53)
Financial liabilities not carried at fair value									
Trade and other payables	12	—	—	(62,690)	(62,690)				
Interest-bearing borrowings	14	—	—	(114,788)	(114,788)	—	(117,272)	—	(117,272)
		(53)	—	(177,478)	(177,531)				

* *Excluding prepayments*

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) ***Fair value (Continued)***

		Carrying amount				Fair value			
	Note	**Designated at fair value**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 December 2014									
Financial assets not carried at fair value									
Financial receivables	8	—	194,984	—	194,984	—	217,716	—	217,716
Trade and other receivables*	9	—	31,663	—	31,663				
Restricted cash		—	4	—	4				
Cash and cash equivalents	10	—	30,702	—	30,702				
		—	257,353	—	257,353				
Financial liabilities carried at fair value									
Forward exchange contracts	13	(189)	—	—	(189)	—	(189)	—	(189)
Financial liabilities not carried at fair value									
Trade and other payables	12	—	—	(56,843)	(56,843)				
Interest-bearing borrowings	14	—	—	(111,213)	(111,213)	—	(111,474)	—	(111,474)
		(189)	—	(168,056)	(168,245)				

* Excluding prepayments

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) ***Fair value (Continued)***

		Carrying amount				Fair value			
	Note	**Designated at fair value**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
31 December 2015									
Financial assets carried at fair value									
Forward exchange contracts	13	100	—	—	100	—	100	—	100
Financial assets not carried at fair value									
Financial receivables		—	183,179	—	183,179	—	212,264	—	212,264
Trade and other receivables*	9	—	31,809	—	31,809				
Restricted cash		—	4	—	4				
Cash and cash equivalents	10	—	28,932	—	28,932				
		100	243,924	—	244,024				
Financial liabilities not carried at fair value									
Trade and other payables	12	—	—	(50,757)	(50,757)				
Interest-bearing borrowings	14	—	—	(114,581)	(114,581)	—	(114,284)	—	(114,284)
		—	—	(165,338)	(165,338)				

* Excluding prepayments

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) ***Fair value (Continued)***

		Carrying amount				Fair value			
	Note	**Designated at fair value**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
30 September 2016									
Financial assets not carried at fair value									
Financial receivables		—	169,238	—	169,238	—	203,749	—	203,749
Trade and other receivables*	9	—	33,066	—	33,066				
Cash and cash equivalents and restricted cash	10	—	12,584	—	12,584				
		—	214,888	—	214,888				
Financial liabilities not carried at fair value									
Trade and other payables	12	—	—	(52,717)	(52,717)				
Interest-bearing borrowings	14	—	—	(112,286)	(112,286)				
		—	—	(165,003)	(165,003)				

* Excluding prepayments

Determination of fair values

Financial receivables and interest-bearing borrowings

The fair values of financial receivables and interest-bearing borrowings are estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes only.

17 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) ***Fair value (Continued)***

The interest rates used to discount estimated cash flows, when applicable, are as follows:

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	%	%	%	%
Interest-bearing borrowings	0.583	0.629	1.178	—
Financial receivables	4.880	4.091	3.565	3.100

Derivatives

At the reporting date, in order to determine the fair value of the interest rate swaps and forward exchange contracts, management had obtained independent valuations from the banks, which were based on valuation techniques in which significant inputs were based on observable market data. The interest rate swaps and forward exchange contracts were categorised as Level 2 as the inputs used for valuations were found on observable market data.

Other financial assets and liabilities

No fair value information is disclosed for financial assets and liabilities whose carrying amounts are measured at amortised cost basis which approximates their fair value due to their short-term nature and where the effect of discounting is not material.

18 COMMITMENTS

(a) The Target Group entered into various construction contacts. The construction contracts are fixed price contracts where progressive payments are made in accordance with construction milestones, stipulated within each construction contract.

At the reporting date, significant commitments for future payments under the construction contracts are as follows:

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within 1 year	8,006	7,402	7,971	8,049
After 1 year but within 5 years	24,350	23,660	18,827	14,755
	32,356	31,062	26,798	22,804

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) ***Transactions with key management personnel***

Directors

As at 30 September 2016, the Target Company's Board of Directors includes the following individuals:

Zhang Song
Cheong Aik Hock
Wang Yong
Yu Long
Nah Tien Liang
Zhao Ping

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Target Group, directly or indirectly, including the Target Company's directors.

Key management personnel including directors are either directors and/or employees of related parties and no consideration is paid to these companies for the services rendered by these directors.

(b) ***Other related party transactions***

	Year ended 31 December			Nine-month period ended 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Amount paid/payable under the following contracts:				
- construction contracts	4,126	495	4,843	2,814
- equipment purchase contracts	—	1,760	140	139
- chemical and maintenance purchases	3,834	2,285	2,387	3,556
- management services	1,584	1,139	2,072	1,459
- secondment contracts	1,655	843	845	496
- shareholders loans	—	—	—	112,286

The balance of outstanding amounts due from/to related parties and their terms are disclosed in notes 9, 12 and 14, respectively.

20 PARENT AND ULTIMATE HOLDING COMPANY

As at 30 September 2016, The Target Company is jointly owned by Hyflux Asset Management Pte. Ltd., incorporated in the Republic of Singapore, and Yunnan Water (Hong Kong) Company Limited, incorporated in Hong Kong and a wholly-owned subsidiary of Yunnan Water Investment Co., Limited.

21 STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	At 31 December			At 30 September
	2013	**2014**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current assets				
Investments in subsidiaries	286,865	286,865	286,865	286,865
	286,865	286,865	286,865	286,865
Current assets				
Trade and other receivables	7,448	7,766	8,111	8,371
Cash and cash equivalents	5	101	94	99
	7,453	7,867	8,205	8,470
Current liabilities				
Trade and other payables	2,565	3,805	4,807	5,747
Current tax payable	34	35	35	35
	2,599	3,840	4,842	5,782
Net current assets	4,854	4,027	3,363	2,688
Total assets less current liabilities	291,719	290,892	290,228	289,553

21 STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	At 31 December			At 30 September
	2013	2014	2015	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current liabilities				
Trade and other payables	1,340	1,385	—	—
	1,340	1,385	—	—
Net assets	290,379	289,507	290,228	289,553
Capital and reserves				
Share capital	296,237	296,237	296,237	296,237
Reserves	(5,858)	(6,730)	(6,009)	(6,684)
Total equity	290,379	289,507	290,228	289,553

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to date of issue of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective in respect of the financial periods included in the Relevant Periods, and which have not been adopted in the Financial Information.

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS (CONTINUED)

Of these developments, the following relate to matter that may be relevant to the Target Group's operations and the Financial Information:

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows - Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes - Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments (2014)*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Target Group is in the process of making an assessment of what the impact of these new standards and amendments to standards is expected to be in the period of initial application. Further details of the expected impacts are discussed below. As the Target Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the financial statements are as follows:

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS (CONTINUED)

(a) ***Classification and measurement***

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Target Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Target Group currently does not have any significant financial liabilities designated at FVTPL and therefore this new requirement may not have any significant impact on the Target Group on adoption of HKFRS 9.

(b) ***Impairment***

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Target Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) ***Hedge accounting***

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. As the Target Group currently does not have any transactions eligible for hedge accounting, it expects that this new requirement may not have any significant impact on the Target Group on adoption of HKFRS 9.

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS (CONTINUED)

(c) ***Hedge accounting (Continued)***

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. Based on the preliminary assessment, the Target group does not believe the adoption of this new standard would have a significant impact on the financial information.

HKFRS 16, Leases

Currently the Target group does not enter into any significant lease contracts as the lessor or the lessee. The Target group does not believe the adoption of this new standard would have a significant impact on the financial information.

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 September 2016. No dividend or distribution has been declared or made by the Target Group in respect of any period subsequent to 30 September 2016.

Yours faithfully,

KPMG

Certified Public Accountants
Hong Kong

Set out below is the management discussion and analysis on the Target Group for the years ended 31 December 2013, 2014, 2015 and the nine-month periods ended 30 September 2015 and 2016. The following financial information is based on the financial information of the Target Group as set out in Appendix II to this circular.

OVERVIEW OF THE TARGET GROUP

Please refer to the section headed "Information of the Target Group" in the "Letter from the Board" of this circular for further information on the Target Group, including their place of establishment/incorporation and principal business activities.

FINANCIAL OVERVIEW

Revenue

The Target Group recorded a total revenue of US$51.5 million, US$45.8 million, US$42.6 million, US$28.9 million and US$ 30.4 million for the years ended 31 December 2013, 2014 and 2015, and the nine-month periods ended 30 September 2015 and 2016 respectively. Revenue of the Target Group represents construction income, operating and maintenance income and finance income.

The following table sets out the details of the revenue breakdown:

	Year ended 31 December			Nine months ended 30 September	
	2013	**2014**	**2015**	**2015**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'000* *(unaudited)*	*US$'000*
Construction income	16,895	10,079	6,875	3,097	5,324
Operating and maintenance income	26,387	27,461	27,651	19,705	19,501
Finance income	8,260	8,301	8,102	6,141	5,527
	51,542	45,841	42,628	28,943	30,352

The decrease in revenue for the three-year period from 2013 to 2015 was mainly due to a decrease in construction income as a result of the completion of the upgrade construction of one water treatment plant in 2013 and one waste water treatment plant in 2014.

The increase of revenue for the nine-month period ended 30 September 2016 comparing with that for the nine-months period ended 30 September 2015 was mainly due to an increase in construction income, which was attributable to one waste water treatment plant under construction.

Cost of sales

Cost of sales comprised construction costs, electricity costs, chemical costs, sludge treatment fees, manpower costs, maintenance fees and other costs. For the three years ended 31 December 2013, 2014 and 2015, and the nine-month periods ended 30 September 2015 and 2016, the cost of sales of the Target Group amounted to US$47.8 million, US$43.5 million, US$40.2 million, US$29.0 million and US$34.6 million, respectively.

The decrease in cost of sales for the three-year period from 2013 to 2015 was attributable to a decrease in construction costs. The increase in cost of sales for the nine-month period ended 30 September 2016 as comparing with that for the nine-month period ended 30 September 2015 was attributable to the increased construction costs and the increased costs incurred by one waste water treatment plant to meet the enhanced environmental requirements by local government and improve the quality of wastewater effluent.

Gross profit/loss

For the years ended 31 December 2013, 2014 and 2015, gross profit amounted to US$3.7 million, US$2.3 million and US$2.4 million, respectively, with the gross profit margin of 7.3%, 5.1% and 5.6%, respectively. For the nine-month periods ended 30 September 2015 and 2016, gross loss amounted to US$0.1 million and US$4.3 million, respectively, with the negative gross profit margin of 0.2% and 14.1%, respectively. The increase of gross loss for the nine-month period ended 30 September 2016 as comparing with that for the nine-month period ended 30 September 2015 was primarily attributed to the significant increase in cost of sales of one waste water treatment plant as mentioned above.

General and Administrative Expenses

The general and administrative expenses of the Target Group mainly include office and travel expenses, consulting expenses, taxes and other general and administrative expenses.

For the three years ended 31 December 2013, 2014 and 2015, and the nine-month periods ended 30 September 2015 and 2016, the general and administrative expenses of the Target Group amounted to US$2.7 million, US$2.8 million, US$3.3 million, US$2.5 million and US$2.2 million respectively.

Net Loss

For the three years ended 31 December 2013, 2014 and 2015, and the nine-month periods ended 30 September 2015 and 2016, net loss amounted to US$2.9 million, US$6.2 million, US$15.3 million, US$13.4 million and US$36.8 million, respectively, with a net loss margin of 5.6%, 13.6%, 35.9%, 46.2% and 121.2%, respectively.

The increase in net loss for the year ended 31 December 2014 comparing with that for the year ended 31 December 2013 was primarily attributed to the foreign exchange gain generated in 2013 arising from the intercompany loans borrowed by the PRC subsidiaries which are denominated in USD.

The increase in net loss for the year ended 31 December 2015 comparing with that for the year ended 31 December 2014 was primarily due to increases in impairment losses on goodwill and concession rights by US$4.4 million and foreign exchange loss arising from the intercompany loans borrowed by the PRC subsidiaries which are denominated in USD by US$5.5 million, respectively.

The increase in net loss for the nine-month period ended 30 September 2016 comparing with that for the nine-months period ended 30 September 2015 was mainly due to an increase in impairment losses on goodwill and concession rights by US$17.4 million. In 2016, the Target Group commenced the process to sell 100% equity interests of two operating subsidiaries in PRC and an impairment loss of US$15.6 million was recognised for write-down of the disposal group to the lower of its carrying amount and its fair value less costs to sell, including an impairment loss of US$14.6 million related to goodwill and concession rights.

FINANCIAL REVIEW

As at 31 December 2013 and 2014, the net current assets of the Target Group were approximately US$8.6 million and US$2.2 million, respectively. As at 31 December 2015 and 30 September 2016, the net current liabilities of the Target Group were approximately US$102.1 million and US$95.3 million. The significant increase in net current liabilities was primarily attributable to an increase in interest-bearing borrowings due within 1 year.

The current ratio as at 31 December 2013, 2014 and 2015 and 30 September 2016 were 112%, 103%, 39%, and 44%, respectively.

As at 31 December 2013, 2014 and 2015 and 30 September 2016, the cash and cash equivalents of the Target Group were approximately US$42.1 million, US$30.7 million, US$28.9 million and US$12.6 million, respectively. The cash and cash equivalents consisted of cash on hand and bank balances. The decrease in cash and cash equivalents are primarily due to net cash used in the operating activities and repayment of interest bearing borrowings and interests.

Borrowings and collateral

The Target Group recorded borrowings of US$114.8 million, US$111.2 million, US$114.6 million and US$ 112.3 million as at 31 December 2013, 2014 and 2015, and 30 September 2016, respectively. The interest-bearing borrowings as at 31 December 2013, 2014 and 2015 were secured by share mortgages of all the shares of the subsidiaries incorporated or formed to hold or own the China subsidiaries. The interest-bearing borrowings as at 30 September 2016 were unsecured shareholders loans.

Foreign exchange risk

The Target Group operates mainly in the PRC, and is exposed to foreign currency risks arising from various currency exposures, mainly with respect to the United States dollars (USD) and Singapore dollars (SGD) which can negatively impact costs, margins and profit. Therefore the Target Group has adopted foreign currency policy and conducted foreign exchange forward contracts when needs arise. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

Contingent Liabilities

The Target Group did not have any material contingent liabilities as at 31 December 2013, 2014 and 2015, and as at 30 September 2016.

Gearing ratios

Gearing ratio is calculated as net debt divided by total equity (total interest-bearing borrowings minus cash and cash equivalents, and then divided by total equity). As at 31 December 2013, 2014, 2015, and 30 September 2016, the Target Group's gearing ratios were 23%, 26%, 31% and 44% respectively.

The business development of the Target Group was mainly financed by capital contribution and borrowings from shareholders and banks.

Employees and Remuneration Policy

As at 31 December 2013, 2014, 2015, and 30 September 2016, the number of employees in the Target Group was 566, 568, 562 and 553, respectively. The total amounts of remuneration for the years ended 31 December 2013, 2014 and 2015 and nine-month periods ended 30 September 2015 and 2016 were approximately US$4.6 million, US$5.1 million, US$5.1 million, US$3.9 million and US$3.7 million, respectively.

The Target Group is required to make contribution to social insurance contribution scheme, which includes the endowment insurance, medical insurance and unemployment insurance for the employees according to the relevant regulations in the PRC.

The Target Group did not experience any significant labour disputes causing any material impact on its normal business operations.

Prospects of the Target Group

The Target Group has been engaged in investment, development, construction, operation and maintenance of water supply, wastewater treatment and reclaimed water projects in the PRC. It is expected that the completion of the Transactions would not have any significant impact to the daily operation and administration of the Target Group.

Capital commitments

The Target Group's capital commitments amounted to US$32.4 million, US$31.1 million, US$26.8 million and US$22.8 million as at 31 December 2013, 2014 and 2015, and 30 September 2016, respectively. The commitments were mainly generated by the construction of several concession projects.

Expected sources of funding

The Target Group generally finances its operations with borrowings from shareholders and banks. As at 30 September 2016, the Target Group did not have any banking facilities.

The Target Group will seek facility lines from commercial banks and other debt instruments according to the future financing plan. The scale of the debts is expected to be amounted US$135.1 million in the foreseeable future.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (''Unaudited Pro Forma Financial Information'') which has been prepared based on the unaudited interim condensed consolidated balance sheet of the Group as set out in the interim report of the Company for the six months ended 30 June 2016 after making pro forma adjustments as set out below. This Unaudited Pro Forma Financial Information has been prepared to illustrate the effect of the acquisition of the remaining 50% of the issued share capital of the Target Company (the ''Acquisition'') and the previous acquisition of the 50% of issued share capital of the Target Company (the "Previous Acquisition"), as if the Acquisition and the Previous Acquisition had taken place on 30 June 2016.

The directors of the Company (the "Directors") have estimated the fair value of the identifiable assets and liabilities of the Target Group as at 26 September 2016, the date of completion of Previous Acquisition, and have applied it as the fair value of the identifiable assets and liabilities of the Target Group in the Acquisition and the Previous Acquisition in preparing the Unaudited Pro Forma Financial Information. Since the fair value of the identifiable net assets of the Target Group at the completion date of the Acquisition may substantially be different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identified net assets, goodwill and gain or loss from re-measurement of the Group's previously held equity interest in the Target Group to be recognised in connection with the Acquisition may be different from the amounts presented the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition and the Previous Acquisition been completed as at 30 June 2016 or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

(I) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

			Pro forma adjustments					
	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2016	**Audited consolidated statement of assets and liabilities of the Target Group as at 30 September 2016**						**Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
ASSETS								
Non-current assets								
Property, plant and equipment	1,749,969	33						1,750,002
Investment properties	17,480	—						17,480
Land use rights	129,856	—						129,856
Receivables under service concession arrangements	2,403,054	1,079,513		52,002				3,534,569
Amounts due from customers for contract works	488,616	—						488,616
Intangible assets	3,210,870	1,223,297		94,423				4,528,590
Investments accounted for using equity method	34,868	—	743,855	(743,855)				34,868
Trade and other receivables	570,292	14,310						584,602
Deferred income tax assets	139,364	—						139,364
	8,744,369	2,317,153						11,207,947
Current assets								
Receivables under service concession arrangements	25,363	42,738						68,101
Inventories	33,502	2,546						36,048
Amounts due from customers for contract works	12,326	—						12,326
Trade and other receivables	2,386,198	204,958						2,591,156
Assets of disposal group classified as held for sale	—	159,659						159,659
Cash and cash equivalents	2,090,364	83,447	(665,142)	(905,159)	(372,296)	(538,102)		(306,888)
Restricted cash	61,749	—						61,749
	4,609,502	493,348						2,622,151
Total assets	13,353,871	2,810,501						13,830,098

			Pro forma adjustments					
	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2016	**Audited consolidated statement of assets and liabilities of the Target Group as at 30 September 2016**						**Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
LIABILITIES								
Non-current liabilities								
Borrowings	1,878,369	—						1,878,369
Trade and other payables	57,048	1,194						58,242
Deferred income	420,637	—						420,637
Deferred income tax liabilities	427,960	166,894		14,211				609,065
Provision	57,496	—						57,496
	2,841,510	168,088						3,023,809
Current liabilities								
Borrowings	3,640,826	744,591			(372,296)	(372,295)		3,640,826
Trade and other payables	1,716,698	348,383				(165,807)	8,551	1,907,825
Amounts due to customers for contract works	3,333	—						3,333
Liabilities of disposal group classified as held-for-sale	—	15,477						15,477
Current income tax liabilities	47,627	17,162						64,789
	5,408,484	1,125,613						5,632,250
Total liabilities	8,249,994	1,293,701						8,656,059
Net assets	5,103,877	1,516,800						5,174,039

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The unadjusted consolidated statement of assets and liabilities of the Group as at 30 June 2016 is extracted from the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2016 as set out in the published interim report of the Company for the six months ended 30 June 2016.

2. The consolidated statement of assets and liabilities of the Target Group as at 30 September 2016 is extracted from the financial information of the Target Group as set out in Appendix II to this circular and have been converted to Renminbi at the exchange rate of US$1.00:RMB6.6312.

3. Pursuant to the sale and purchase agreement dated on 28 July 2016, the Group acquired 50% equity interest of the Target Group from Mitsui & Co., Ltd. at a cash consideration of US$100,000,000 (equivalent to approximately RMB663,120,000). The Previous Acquisition was completed on 26 September 2016 and the Target Group became a joint venture of the Group thereafter.

   The pro forma adjustment represents recognition of investment of 50% equity interest in the Target Group at initial measurement, as if the Previous Acquisition had taken place on 30 June 2016.

	note	*US$'000*	*RMB'000*
Cash consideration		100,000	663,120
Estimated transactions cost paid to other parties	(a)		2,022
Cost of investment in the Target Group			665,142
Less: Fair value of the identifiable net assets of the Target Group (Note 4)	(b)	224,350	1,487,709
			50%
Share of identifiable net assets of the joint venture			743,855
Negative goodwill arising from the Previous Acquisition	(c)		(78,713)

(a) The estimated transactions cost in connection with the Previous Acquisition is approximately RMB2,022,000 paid by the Group in cash. The related transaction costs are included as part of the investment cost of the Previous Acquisition.

(b) The fair value of the identifiable net assets of the Target Group as at 26 September 2016 was estimated to be approximately RMB1,487,709,000. For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable net assets of the Target Group as at 26 September 2016, based on a separate valuation report dated 20 February 2017 prepared by the independent valuer.

(c) The excess of the Group's share of the fair value of the identifiable net assets of the Target Group over the cost of the investment in respect of the Previous Acquisition on 26 September 2016 represents negative goodwill, which is recognised as share of profit of investments accounted for using the equity method in the Group's income statement. The carrying amount of investment in the Target Group is stated at the Group's share of the fair value of identifiable net assets of the Target Group.

4. Pursuant to the conditional sale and purchase agreement dated on 26 October 2016, the Group has conditionally agreed to purchase the remaining 50% equity interest in the Target Company from Hyflux Asset Management Pte. Ltd. (the "Vendor") at a cash consideration of US$136,500,000 (equivalent to approximately RMB905,159,000). The completion of the Acquisition is dependent on the fulfillment of a number of conditions, amongst others, the approval from the shareholders of the Company.

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company, and the identifiable assets and liabilities of the Target Group will be accounted for by the Group at their fair values in accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations" ("HKFRS 3").

The fair value adjustments comprise of:

- Fair value adjustment of receivables under service concession arrangements

	US$'000	*RMB'000*
Fair value of the receivables under service concession arrangements	177,080	1,174,253
Less: Carrying amount of receivables under service concession arrangements	169,238	1,122,251
	7,842	52,002

- Fair value adjustment of identifiable intangible assets

	US$'000	RMB'000
Fair value of the identifiable intangible assets	174,390	1,156,415
Less: Carrying amount of identifiable intangible assets	173,660	1,151,574
	730	4,841

- Deferred income tax liabilities of approximately RMB14,211,000 arising from the fair value adjustments recognised above.

The provisional purchase price allocation arising from the Acquisition of the Target Group is calculated as follows:

	US$'000	RMB'000
Consideration transferred:		
Cash consideration	136,500	905,159
Fair value of previously held interest in the Target Group (see note 3 above and note 4(a) and 4(b) below)	112,175	743,855
	248,675	1,649,014
Less: fair value of the identified net assets of the Target Group		
Net assets of the Target Group as at 30 September 2016 (Appendix II to this circular)	228,737	1,516,800
Less: Carrying amount of goodwill of the Target Group as at 30 September 2016	(10,816)	(71,723)
Identifiable net assets of the Target Group as at 30 September 2016	217,921	1,445,077
Fair value adjustments on the identifiable net assets of the Target Group (note 4(b) below)	8,572	56,843
Effect on deferred income tax liabilities arising from fair value adjustments on the identifiable net assets of the Target Group	(2,143)	(14,211)
	224,350	1,487,709
Goodwill arising from the Acquisition (note 4(c) below)	24,325	161,305

(a) The Acquisition is accounted for as a business combination achieved in stages. In accordance with HKFRS 3, the Group should re-measure its previously held equity interest in the Target Group at the completion date of the Acquisition to fair value and recognise the resulting gain or loss in profit and loss if any.

(b) Since the fair value of the identifiable net assets of the Target Group at the completion date of the Acquisition may substantially be different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identified net assets, goodwill and gain or loss from re-measurement of the Group's previously held equity interest in the Target Group to be recognised in connection with the Acquisition may be different from the amounts presented above.

(c) For the purpose of the Unaudited Pro Forma Financial Information, the Directors have made an assessment on whether there is any impairment in respect of the goodwill arising from the Acquisition with reference to Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"). With respect to the impairment assessment for goodwill, the Directors have engaged the independent valuer to assist them to assess whether there is any impairment of goodwill. Directors have assessed the Target Group's recoverable amount based on a discounted cash flows arising from the identifiable assets and has also taken into consideration the historical performance and the financial performance of the Target Group and synergy after the Acquisition as the key parameters and business assumptions in the valuation.

Based on the assessment results, Directors concluded that there is no impairment in the value of goodwill. The Company will adopt consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's goodwill in future.

5. Pursuant to the sale and purchase agreement dated on 28 July 2016, the Group and the Vendor, respectively and equally, have provided loans of US$56,143,000 (equivalent to approximately RMB372,296,000) to the Target Company for it to repay the outstanding bank borrowings and the Target Company has repaid the outstanding bank borrowings in September 2016. These shareholders' loans have been recognised as borrowings in the audited consolidated statement of assets and liabilities of the Target Group as at 30 September 2016.

The pro forma adjustment is to reflect the loan from the Group to the Target Group for the repayment of the bank borrowings in the pro forma consolidated statement of assets and liabilities of the Enlarged Group as if it has taken place on 30 June 2016.

6. Pursuant to the conditional sale and purchase agreement dated on 26 October 2016, the Group has procured that as of the completion date of the Acquisition, the Group should provide a loan of US$81,147,000 (equivalent to approximately RMB538,102,000) to the Target Company and the Target Company should make full repayment of:

   - the loan from the Vendor in the sum of US$56,143,000 (equivalent to approximately RMB372,295,000) (note 5); and

   - payables to the Vendor of US$25,004,000 (equivalent to approximately RMB165,807,000) which the Target Group has recognised as trade and other payables as at 30 September 2016.

   The pro forma adjustment represents the effect of the above arrangements to the Enlarged Group's consolidated assets and liabilities as if they have taken place on 30 June 2016.

7. The pro forma adjustment represents the estimated transaction costs of approximately RMB8,551,000 payable by the Company in connection with the Acquisition.

8. For the purpose of the Unaudited Pro Forma Financial Information, the balances arising from the Previous Acquisition and Acquisition stated in United States dollars have been converted to Renminbi at the exchange rate of US$1.00:RMB6.6312.

9. Apart from the Previous Acquisition and the Acquisition, no other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Group and the Target Group subsequent to 30 June 2016.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Yunnan Water Investment Co., Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yunnan Water Investment Co., Limited (the "Company") and its subsidiaries (collectively the "Group") and Galaxy NewSpring Pte. Ltd., (the "Target Company") and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2016 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-8 of the Company's circular dated 24 February 2017, in connection with the proposed acquisition of the remaining 50% interest of the Target Group (the "Acquisition") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-8.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition and the first acquisition of the 50% of issued share capital of the Target Company (the "Previous Acquisition") on the Group's financial position as at 30 June 2016 as if the Acquisition and the Previous Acquisition had taken place at 30 June 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited interim condensed consolidated balance sheet as at 30 June 2016, on which a review report has been published.

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

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition and the Previous Acquisition at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 February 2017

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) *Directors, Supervisors and chief executives*

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which: (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Type of Shares	Interest in Shares	Approximate percentage of the respective type of Shares in issue (%)	Approximate percentage of the total number of Shares in issue (%)
Mr. Huang Yunjian *(Note 1)*	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Liu Xujun *(Note 2)*	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Yu Long	Beneficial owner	Domestic Shares	10,820,000 (L)	1.30	0.91
Mr. Yu Long	Beneficial owner	H Shares	770,000 (L)	0.21	0.065

(L) refers to long position

Notes:

1. Mr. Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares. By virtue of the acting in concert agreement (the "***Acting in Concert Agreement***") dated 24 July 2014 entered into between Yunnan Province Water, Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong, pursuant to which each of Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong agreed to act in concert with Yunnan Province Water in exercising their voting rights in the Shareholders' meeting of the Company. Mr. Huang Yunjian is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Mr. Liu Xujun, Mr. Wang Yong and Mr. Huang Yunjian himself in aggregate pursuant to the SFO.

2. Mr. Liu Xujun is the beneficial owner of 195,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water, Mr. Huang Yunjian, Mr. Wang Yong and himself in aggregate by pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors and chief executives had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which: (i) were required 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 (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or (iii) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) ***Substantial Shareholders***

As at the Latest Practicable Date, to the best knowledge of the Company, the persons or entities (other than the Directors, Supervisors or chief executives of the Company) who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital are as follows:

Name of Shareholder	Capacity and nature of interest	Type of Shares	Interest in Shares	Approximate percentage of respective type of Shares in issue (%)	Approximate percentage of total number of Shares in issue (%)
Yunnan Province Water *(Note 1)*	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
Mr. Wang Yong *(Note 2)*	Beneficial owner, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.58	30.30
YMCI *(Note 1)*	Interests in controlled corporation, interests held jointly with another person	Domestic Shares	361,487,162 (L)	43.8	30.30
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000 (L)	34.56	24.02
CNPC Assets Management Co, Ltd.	Interests in controlled corporation	Domestic Shares	137,880,000 (L)	16.62	11.56
China National Petroleum Corporation *(Note 3)*	Interests in controlled corporation	Domestic Shares	137,880,000 (L)	16.62	11.56
Kunlun Trust Co., Ltd. *(Note 3)*	Interests in controlled corporation	Domestic Shares	137,880,000 (L)	16.62	11.56
Finergy Development (Tianjin) Equity Investment Partnership (Limited Partnership) *(Note 3)*	Beneficial owner	Domestic Shares	137,880,000 (L)	16.62	11.56
YMCI *(Note 1)*	Interests in controlled corporation	H Shares	2,189,000 (L)	0.60	0.18
Caiyun International *(Note 1)*	Beneficial owner	H Shares	2,189,000 (L)	0.60	0.18

(L) refers to long position

Notes:

1. Yunnan Province Water is wholly owned by YMCI and is the beneficial owner of 361,487,162 Domestic Shares. Caiyun International is wholly owned by YMCI and is the beneficial owner of 2,189,000 H Shares. YMCI is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and H Shares held by Caiyun International pursuant to the SFO which representing approximately 30.48% of total issued Shares. By virtue of the Acting in Concert Agreement, each of Yunnan Province Water and YMCI is deemed to be interested in all the Domestic Shares held by Huang Yunjian, Liu Xujun, Wang Yong and each of Yunnan Province Water and YMCI in aggregate pursuant to the SFO.

2. Wang Yong is the beneficial owner of 585,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by himself, Yunnan Province Water, Huang Yunjian and Liu Xujun in aggregate pursuant to the SFO.

3. Finergy Development (Tianjin) Equity Investment Partnership (Limited Partnership) is controlled as to 84.86% by Kunlun Trust Co., Ltd., its general partner, and the beneficial owner of 137,880,000 Domestic Shares; Kunlun Trust Co., Ltd. is owned as to 82.18% by CNPC Assets Management Co., Ltd., which in turn is wholly-owned by China National Petroleum Corporation. Under the SFO, each of Kunlun Trust Co., Ltd., CNPC Assets Management Co., Ltd. and China National Petroleum Corporation is deemed to be interested in all the Domestic Shares held by Finergy Development (Tianjin) Equity Investment Partnership (Limited Partnership).

As at the Latest Practicable Date, save as disclosed above, the Directors and the chief executive of the Company were not aware of any other persons or entities (other than the Directors, Supervisors or chief executives of the Company) who had interests or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

3. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Group within the two years immediately preceding the date of this circular and up to the Latest Practicable Date:

(a) the SPA;

(b) the joint venture agreement dated 25 January 2017 entered into by the Company and Yunnan Sidu Investment Management Co., Ltd.* (雲南斯度投資管理有限公司) in relation to the establishment of Yunnan Solid Waste Investment Co., Ltd.* (雲南固廢投資有限公司) (subject to the final name as approved and registered by the industrial and commercial registration authority), as a joint venture company in Kunming, Yunnan Province, the PRC with a total investment amount of RMB500,000,000;

(c) the joint venture agreement dated 9 December 2016 entered into by the Company and Haining Municipal Water Investment Group Co., Limited* (海寧市水務投資集團有限公司) in relation to the establishment of Zhejiang Haiyun Environmental Protection Company Limited* (浙江海雲環保有限公司) (subject to the final name as approved and registered by the local government authority) as a joint venture company in Haining, Zhejiang Province, the PRC with a total investment amount of RMB1,100,000,000;

(d) the joint venture agreement dated 1 November 2016 entered into by Yunnan Water Hong Kong and Penglai Urban Construction Investment Group Co., Ltd.* (蓬萊市城市建設投資集團有限公司) in relation to the establishment of Shandong Yunshui Xianjing Environmental Protection Investment Company, Ltd.* (山東雲水仙境環保投資有限公司) as a joint venture company in Penglai, Shandong Province, the PRC, with a total investment amount of US$100,000,000;

(e) the equity transfer agreement dated 24 October 2016 entered into by the Company as purchaser and Yunnan Zhengxiao Cables Co., Ltd.* (雲南正曉電纜有限公司) as vendor in relation to the sale and purchase of 40% equity interest in Yunnan Zhengxiao Environmental Protection Investment Co., Ltd.* (雲南正曉環保投資有限公司) at a consideration of RMB220,000,000 and subject to the fulfilment of certain conditions precedent, an additional consideration of RMB10,000,000;

(f) the underwriting agreement dated 20 June 2016 entered into by the Company as issuer, together with China CITIC Bank Corporation Limited and Huatai Securities Company Limited* (華泰證券股份有限公司) as the lead underwriter and joint lead underwriter respectively in relation to the Company's issuance of private placement notes in the amount of RMB1,000,000,000;

(g) the sale and purchase agreement dated 28 July 2016 entered into by Mitsui & Co., Ltd as vendor, Yunnan Water Hong Kong as purchaser and the Company as purchaser's guarantor in relation to the sale and purchase of 50% interest in Galaxy NewSpring Pte. Ltd. at a consideration of US$100,000,000;

(h) the equity transfer agreement dated 21 April 2016 entered into by Heilongjiang Chenergy Investment Group Company Limited* (黑龍江辰能投資集團有限責任公司) and Heilongjiang Chenergy Hit High-Tech Venture Capital Co., Ltd* (黑龍江辰能哈工大高科技風險投資有限公司), collectively, as vendors and the Company as purchaser in relation to the sale and purchase of 75.51% equity interest in Harbin Yun Shui Gong Da Environmental Technology Co., Ltd.* (哈爾濱雲水工大環保科技股份有限公司) (formerly known as "Harbin Chenergy & Hit Environmental Technology Co., Ltd.* (哈爾濱辰能工大環保科技股份有限公司") at a consideration of RMB158,000,000;

(i) the equity transfer agreement dated 11 January 2016 entered into by Environmental Experts (China) Development & Investment Company Limited (專業環保(中國)投資開發有限公司) and Hong Kong Rich Investment Limited (香港年峰投資有限公司), collectively, as vendors and the Company as purchaser in relation to the sale and purchase of 100% equity interest in Harbin Guo Huan Medical Solid Waste Harmless Centralized Disposal Center Co., Ltd.* (哈爾濱國環醫療固體廢物無害化集中處置中心有限公司) at a consideration of RMB290,641,420;

(j) the share transfer agreement dated 21 December 2015 entered into by Mr. Wang Zhi as vendor, Yunnan Water Hong Kong as purchaser, Future International Group Co., Ltd. ("**Future International**") and Huize Water (Qingzhou) Company Limited* (暉澤水務(青州有限公司) in relation to the sale and purchase of 65% interest in Future International at a consideration of RMB292,500,000;

(k) the equity interest transfer agreement dated 18 December 2015 entered into by, among others, Yunnan Zhengxiao Cables Co., Ltd.* (雲南正曉電纜有限公司) as vendor and the Company as purchaser in relation to the sale and purchase of 60% equity interest in Yunnan Zhengxiao Environmental Protection Investment Co., Ltd.* (雲南正曉環保投資有限公司) at a consideration of RMB300,000,000;

(l) the joint venture agreement dated 4 December 2015 entered into by the Company and Fujian Environmental Protection Co., Ltd.* (福建省環境保護股份公司) in relation to the establishment of Fujian Environmental Protection Investment Co. Ltd*. (福建省環境保護投資有限公司) in Fujian Province, the PRC, with a total investment amount of RMB1,000,000,000;

(m) the acquisition agreement dated 6 November 2015 entered into by IRIS Corporation Berhad, Northern Shine Holdings Limited, Mr. Wuthikorn Aphichatabut, Ms. Kunpawee Chaosiwongthep and POLAR Success Limited, collectively, as vendors and Yunnan Water Hong Kong as purchaser in relation to the sale and purchase of 7,400,000 shares in PJT Technology Co., Limited at a consideration of US$70,000,000;

(n) the master sale and purchase agreement for engineering services dated 6 November 2015 entered into by the Company and YMCI relating to the provision of the engineering services by the Group to YMCI and its subsidiaries;

(o) the general procurement agreement dated 14 October 2015 entered into by the Company and Beijing OriginWater relating to the purchase of membrane auxiliary materials by the Group from Beijing OriginWater and its subsidiaries;

(p) the equity transfer agreement dated 21 September 2015 entered into by, among others, Fujian Environmental Protection Company as transferor and the Company as transferee in relation to the sale and purchase of 100% equity interest in Ningde Zhangwan Waste Incineration and Power Generation Co., Ltd.* (寧德漳灣垃圾焚燒發電有限公司) at a consideration of RMB213,930,000;

(q) the equity transfer agreement dated 18 September 2015 entered into by Fujian Province Deify Industrial Co., Ltd.* (福建省大華實業有限公司) as transferor and the Company as transferee in relation to the sale and purchase of 100% equity interest in Fu'an City Saiqi Waste Incineration And Power Generation Co., Ltd.* (福安市賽岐垃圾焚燒發電有限公司) at a consideration of RMB107,000,000;

(r) the investment agreement dated 17 September 2015 entered into by, among others, the Company and Shandong Tengyue Chemical Hazardous Waste Research & Treatment Co., Ltd* (山東騰躍化學危險廢物研究處理有限公司) ("**Shandong Tengyue**") in relation to the subscription of 51% of the enlarged registered capital of Shandong Tengyue at the subscription amounts of approximately RMB416.33 million;

(s) the framework agreement dated 9 July 2015 entered into by the Renhuai Government and the Company, pursuant to which the parties will cooperate in the areas of wastewater treatment, watershed management and water affairs through a public-private partnership model;

(t) the non-competition agreement dated 6 May 2015 entered into among Yunnan Province Water, YMCI and the Company;

(u) the non-competition agreement dated 6 May 2015 entered into between Beijing OriginWater and the Company;

(v) the non-competition undertaking dated 6 May 2015 entered into by the Acting in Concert Parties (as defined below) in favour of the Company;

(w) the indemnity undertaking dated 6 May 2015 provided by Yunnan Province Water in favour of the Company in respect of any losses or expenses which may be incurred by the Company as a result of the non-compliance and title defects disclosed in the prospectus of the Company dated 13 May 2015 (the "**Prospectus**");

(x) the indemnity undertaking dated 6 May 2015 provided by Beijing OriginWater in favour of the Company in respect of any losses or expenses which may be incurred by the as a result of the non-compliance and title defects disclosed in the Prospectus;

(y) the cornerstone investment agreement dated 8 May 2015 entered into among the Company, China Construction Investment Co., Ltd ("**CC Investment**") and China Merchants Securities (HK) Co., Limited ("**CMS**"), pursuant to which CC Investment has agreed to purchase H Shares with an amount up to US$10.0 million;

(z) the cornerstone investment agreement dated 8 May 2015 entered into among the Company, North Industries Group Investment Management Company Ltd. ("**NI Investment**") and CMS, pursuant to which NI Investment has agreed to purchase H Shares with an amount up to US$10.0 million;

(aa) the cornerstone investment agreement dated 8 May 2015 entered into among the Company, Guangxi Beibu Gulf Industrial Investment Fund (Limited Partnership) ("**Beibu Gulf Fund**") and CMS, pursuant to which Beibu Gulf Fund has agreed to purchase H Shares with an amount up to US$8.0 million;

(bb) the cornerstone investment agreement dated 8 May 2015 entered into among the Company, Dragonfair International Investment Limited ("**Dragonfair**") and CMS, pursuant to which Dragonfair has agreed to purchase H Shares with an amount up to US$30.0 million;

(cc) the cornerstone investment agreement dated 8 May 2015 entered into among the Company, Value Partners Hong Kong Limited ("**Value Partners HK**") and CMS, pursuant to which Value Partners HK has agreed to purchase H Shares with an amount up to US$12.0 million;

(dd) the cornerstone investment agreement dated 8 May 2015 entered into among the Company, Chongqing China Innovative Investment Co., Ltd. ("**CI Investment**") and CMS, pursuant to which CI Investment has agreed to purchase H Shares with an amount up to US$5.0 million;

(ee) the underwriting agreement dated 12 May 2015 entered into by, among others, the Company, CMS, YMCI, Yunnan Province Water, Beijing OriginWater and Mr. Liu Xujun, Mr. Huang Yunjian and Mr. Wang Yong (collectively, the "**Acting in Concert Parties**") relating to the Hong Kong public offering of 28,754,000 H Shares (subject to adjustment) as described in the Prospectus; and

(ff) the underwriting agreement dated 18 May 2015 entered into by, among others, , the Company, CMS, YMCI, Yunnan Province Water, Beijing OriginWater and the Acting in Concert Parties relating to the international offering of 258,767,000 H Shares (subject to adjustment) as described in the Prospectus.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their respective close associates had any interest in business which competes with or may compete with the business of the Enlarged Group or had any other conflict of interests which any person has or may have with the Enlarged Group.

7. EXPERTS AND CONSENT

The followings are the qualifications of the experts who have given opinions, letters or advice which is contained in this circular.

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
KPMG	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and/or reference to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, each of the above experts was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the experts named above did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. GENERAL

(a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Enlarged Group.

(b) As at the Latest Practicable Date, no Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

(c) The registered office and principal place of business of the Company in the PRC is located at 15th and 16th Floor, Block A, He Cheng International, 1088 Haiyuan Zhong Road, Gaoxin District, Kunming, Yunnan, PRC and the principal place of business in Hong Kong is at Suite 5007, 50/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Mr. Li Bo, who is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Certified Public Accountants of Australia.

(f) The English text of this circular shall prevail over the Chinese text in case of any inconsistency, except for the English names/translations of the companies established in the PRC, relevant authorities in the PRC and other Chinese terms used in this circular which are only translations of their official Chinese names.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Suite 5007, 50/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong up to and including 10 March 2017:

(a) the articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(c) the written consent from PricewaterhouseCoopers referred to in the paragraph headed "Experts and Consent" in this Appendix;

(d) the written consent from KPMG referred to in the paragraph headed ''Experts and Consent'' in this Appendix;

(e) the service contracts referred to in the paragraph headed "Service Contracts" in this Appendix;

(f) the accountants' report on the financial information of the Target Group from KPMG, the text of which is set out in Appendix II to this circular;

(g) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(h) the interim report of the Company for the six months ended 30 June 2016, the annual report of the Company for the financial year ended 31 December 2015 and the prospectus of the Company for the two financial years ended 31 December 2013 and 2014; and

(i) this circular.